City of Lexington, Virginia

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018

Prepared by:
Gary W. Swink, Finance Director

CITY OF LEXINGTON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

INTRODUCTORY SECTION

		Page
Letter of Transmittal		1-4
GFOA Certificate of Achievement		5
Organizational Chart		6
List of Elected and Appointed Officials		7

FINANCIAL SECTION

	Exhibit	Page
Independent Auditors' Report		8-10
Management's Discussion and Analysis		11-20
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	21
Statement of Activities	2	22
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	23
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	26
Statement of Net Position – Proprietary Fund	7	27
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	8	28
Statement of Cash Flows – Proprietary Fund	9	29
Statement of Fiduciary Net Position – Fiduciary Funds	10	30
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	11	31
Notes to the Financial Statements		32-119
Required Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:		
General Fund	12	120
Notes to the Budgetary Comparison Schedules		121

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION: (Continued)

	Exhibit	Page
Required Supplementary Information: (Continued)		
Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)	13	122
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	14	123
Schedule of Employer Contributions	15	124
Notes to Required Supplementary Information	16	125-126
Schedule of Changes in the City's Net OPEB Liability and Related Ratios	17	127
Schedule of City's Share of Net OPEB Liability-Health Insurance-LPRMP	18	128
Schedule of Employer Contributions - OPEB	19	129
Schedule of Investment Returns - OPEB	20	130
Schedule of City's Share of Net OPEB Liability-Group Life Insurance Program	21	131
Schedule of Employer Contributions-Group Life Insurance Program	22	132
Notes to Required Supplementary Information-Group Life Insurance Program	23	133-134
Schedule of City School Board's Share of Net OPEB Liability Teacher Health Insurance Credit Program (HIC)	24	135
Schedule of Employer Contributions-Teacher Health Insurance Credit Program (HIC)	25	136
Notes to Required Supplementary Information-Teacher Health Insurance Credit Program (HIC)	26	137
Other Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual:		
Capital Projects Fund	27	138
Agency Funds:		
Combining Statement of Fiduciary Net Position	28	139
Statement of Changes in Assets and Liabilities	29	140
Discretely Presented Component Unit – School Board:		
Balance Sheet	30	141
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	31	142
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	32	143

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION: (Continued)

	Exhibit	Page
Other Supplementary Information: (Continued)		
Discretely Presented Nonmajor Component Units:		
Balance Sheet	33	144
Statement of Revenues, Expenditures, and Changes in Fund Balances	34	145
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	35	146

	Schedule	Page
Supporting Schedules:		
Schedule of Revenues – Budget and Actual - Governmental Funds	1	147-151
Schedule of Expenditures – Budget and Actual - Governmental Funds	2	152-155

STATISTICAL SECTION:

	Table	Page
Financial Trends:		
Net Position by Component	1	156
Changes in Net Position	2	157-159
Governmental Activities Tax Revenues by Source	3	160
Fund Balances of Governmental Funds	4	161
Changes in Fund Balances of Governmental Funds	5	162-163
General Governmental Expenditures by Function	6	164
General Governmental Revenues by Source	7	165
Revenue Capacity:		
Assessed Value and Estimated Actual Value of Taxable Property	8	166
Property Tax Rates	9	167
Principal Taxpayers	10	168
Property Tax Levies and Collections	11	169
Debt Capacity:		
Ratios of Outstanding Debt by Type	12	170
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	13	171
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures	14	172
Direct and Overlapping Government Activities Debt	15	173
Computation of Legal Debt Margin	16	174
Pledged-Revenue Coverage	17	175

TABLE OF CONTENTS (CONTINUED)

STATISTICAL SECTION: (Continued)

	Exhibit	Page
Demographic and Economic Information:		
Demographic and Economic Statistics	18	176
Principal Employers	19	177
Operating Information:		
Full-time Equivalent City Government Employees by Function	20	178
Operating Indicators by Function	21	179
Capital Asset Statistics by Function	22	180
Other Statistical Information:		
Schedule of Joint Services Contract Billing	23	181

COMPLIANCE SECTION

	Page
Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	182-183

INTRODUCTORY SECTION

November 12, 2018

The Honorable Mayor, Members of City Council and
Citizens of the City of Lexington, Virginia

State law requires that every local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Robinson, Farmer, Cox Associates, Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Lexington's financial statements for the year ended June 30, 2018. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet requirements of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996, and the related Uniform Guidance. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (M D & A) immediately follow the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The M D & A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

Lexington was incorporated as a town in 1841 and became a City on January 1, 1966. Lexington is located in the Shenandoah Valley of Virginia near the intersection of two major interstates, I-81 and I-64, and is the home of two of Virginia's highly respected education institutions, Washington and Lee University and Virginia Military Institute. The historic core of the City is a Nationally Registered Historic District. The Virginia Horse Center, a facility with permanent stabling for the 750 horses, is located three miles from Lexington.

The City of Lexington operates under the mayor-council form of government. Policy making and legislative authority are vested in the governing council (Council) consisting of the mayor and six other members, all of whom are elected at large. Council members serve four-year terms, with three members elected every two years. The mayor is elected for a four-year term. The council appoints Lexington's City Manager, who in turn appoints its department heads.

The City of Lexington provides a full range of services, including police and fire protection; emergency medical response and transport services; refuse collection; snow and leaf removal; traffic control; on-and-off street parking; building inspections; licenses and permits; the construction and maintenance of streets and other infrastructure; and recreational and cultural activities. In conjunction with other agencies within the City, library and transit services are provided. Water distribution services and wastewater collection services are provided by the City. The water treatment plant and wastewater treatment plant are owned and operated by the Maury Service Authority (MSA). In fiscal years prior to 2017, these plants were operated under contract by the City and were included as an integral part of the City of Lexington's financial statement. The City operates an independent school system; therefore, the financial results of the school system are reported as a separate component unit. City Council appoints a five-member School Board to administer the City school operations, which consist of an elementary and a middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement.

The City's Industrial Development Authority is reported as a component unit. The Authority is authorized to be a conduit for tax exempt financing for various eligible purposes within the community. The Authority operates under the guidance of seven directors appointed by City Council.

This report includes two other units which are reported as Agency Funds. The Rockbridge Regional Public Safety Communications Center (Central Dispatch) provides E-911 dispatch services for fire, rescue, and police services in Rockbridge County, the cities of Lexington and Buena Vista, and for Virginia Military Institute. Central Dispatch is managed and operated by a five member independent regional board, including the City Managers of Lexington and Buena Vista, the Rockbridge County Administrator, the Sheriff of Rockbridge County/City of Lexington, and one additional member appointed by the Rockbridge County Board of Supervisors.

The second Agency Fund is the Lexington and Rockbridge Area Tourism (Tourism) program, which serves the City of Lexington, the City of Buena Vista, and Rockbridge County. The regional tourism operation serves under an executive director that is appointed by an independent seven-member board. The regional board of directors includes one member appointed by each of the jurisdictions for two year terms. Four remaining members are appointed by the three jurisdictional members for two-year terms. Two of these appointees must be from a tourism related business. The City serves as the fiscal agent for RARO, Central Dispatch, and Tourism.

The City serves as the fiscal agent for the Rockbridge Area Recreation Organization (RARO), which provides recreational activities for and is supported by the County of Rockbridge and the Cities of Lexington and Buena Vista. RARO operates under a seven-member board of directors. The financial activities of RARO are reported in a separate audit report and is presented as a fiduciary fund in the City's financial report.

Services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Rockbridge Area Network Authority, Regional Transit System, Maury Service Authority, Central Shenandoah Juvenile Detention Home, and The Rockbridge Regional Public Safety Communications Center have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Local Economy

The City of Lexington is the county seat of Rockbridge County, a rural area located in the Shenandoah Valley region of Virginia. Its historic significance, including the fact that Lexington is the burial site of both General Robert E. Lee and General "Stonewall" Jackson, and its natural beauties are two attributes that make Lexington a tourist destination. This fact and the location of the two colleges in Lexington are closely linked with the City's economy.

Lexington and Rockbridge County entered a Revenue Sharing Agreement in 1986 wherein Lexington is precluded from extending its boundaries through annexation in exchange for a sharing of a portion of revenues realized by the County from economic growth. The annual payment to the City provides a source of revenue, with growth potential, to supplement revenues realized from property taxation.

Unemployment reported for the City remains higher than state and national rates, but improved significantly in fiscal year 2018. Economic activity, as measured by sales taxes, increased during fiscal year 2018 by 4.7%. Meals taxes, another measure of economic activity, was flat compared to the prior year. Lodging taxes, however, showed a small amount of growth (+1%).

An extremely high percentage of the City's real property assessment (63%) is tax-exempt. This high level of tax-exempt property presents the City challenges in raising revenues sufficient to cover obligations.

Major Initiatives During the Past Year

A major initiative began during fiscal year 2017 to replace and update the City's sewer and water distribution lines. Revenue bonds of $2.18 million were issued to finance these projects. During 2018 the City undertook a number of water and sewer projects, as well as street pavement projects.

Future Plans

Lexington has major capital and infrastructure needs which will need to be addressed in the future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Planned capital projects over the next five years are estimated to cost $24 million and include water and wastewater utility improvements, storm water management improvements, bridge repairs, street improvements and improvements to municipal facilities and parks.

Relevant Financial Policies

Lexington maintains strict budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the general fund, capital projects fund, equipment replacement fund, enterprise fund and the separate school component unit, are included in the annual appropriated budget. The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund except for the agency funds. The governing body of each of these component units approves and controls the annual appropriations made for their respective budgets. City Council approves annual appropriations and quarterly amends appropriations for all funds except for the agency funds.

The City of Lexington has a policy requiring the minimum levels of unassigned fund balance in the General Fund at each fiscal year end to be at least 20% of general operating revenues. At June 30, 2018, the unassigned fund balance exceeded the required minimum by approximately $4.8 million. At June 30, 2017, the unassigned fund balance exceeded the required minimum by $4.1 million.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the twenty-fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirement, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the skill, effort, and dedication of the staffs of the Finance Department, Commissioner of Revenue, and the Office of the Treasurer. I wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Appreciation is also extended to the staff of Robinson, Farmer, Cox, Associates. Lastly, I would like to thank the Mayor, members of the City Council, and the rest of City administration for support for maintaining high standards of professionalism in the management of the City's finances.

Respectfully submitted,

Gary W. Swink

Gary Swink
Director of Finance/Assistant City Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lexington

Virginia

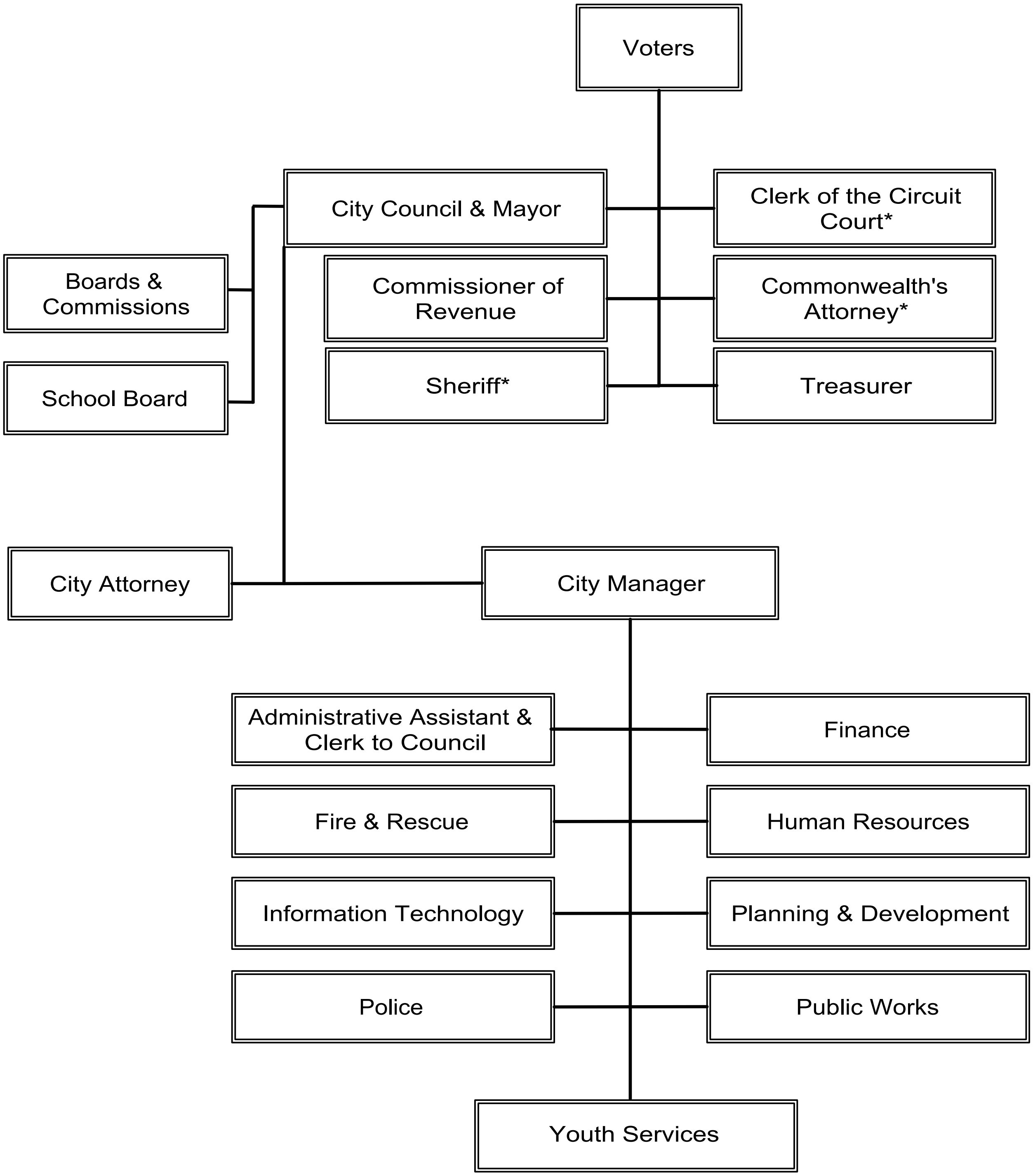
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

CITY OF LEXINGTON
Organizational Chart



*Shared with County

CITY COUNCIL

Frank W. Friedman, Mayor

Marilyn Alexander	Michele F. Hentz
J. Patrick Rhamey, Jr	David G. Sigler
Charles “Chuck” Smith	Leslie C. Straughan

CITY SCHOOL BOARD

Owen Collins, Chair

Timothy Diette, Vice Chair	Miranda Edwards
Mollie Fox	Jeannie VanNess

OTHER OFFICIALS

City Manager .... Noah A. Simon
City Treasurer .... Pat DeLaney
Commissioner of Revenue .... Karen T. Roundy
Finance Director.. Gary W. Swink
City Attorney.. Josh Elrod
Chief of Police .... Samuel Roman, Jr.
Fire and Rescue Chief .... Ty Dickerson
Director of Planning and Development .... Arne Glaeser
Director of Public Works .... Jeff Martone
Superintendent of Schools .... Scott Jefferies

FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Members of
the City Council
City of Lexington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lexington, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 25 to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 25 to the financial statements, in 2018, the City restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding, on pages 11-20, 120-121, and 122-137, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lexington, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018, on our consideration of City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Lexington, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
October 17, 2018

Management's Discussion and Analysis

As management of the City of Lexington, we offer readers of the City of Lexington's financial statements this narrative overview and analysis of the financial activities of the City of Lexington for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets and deferred outflows of resources of the City of Lexington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $31,546,768 *(net position)*. A total of $12,912,014 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, the unassigned fund balance for the general fund is $8,625,068 or 50% of total general fund expenditures of $17,132,779 in the year ended June 30, 2018.
- The City of Lexington's total outstanding debt decreased by $1,372,627 during the current fiscal year due to repayment of bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lexington's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. Uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City of Lexington that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the City include general government, judicial administration, public safety, highways and streets, sanitation, parks, cemeteries, health and welfare, education, recreation and cultural and community development. The business-type activity of the City is water distribution and sewer collection for its customers. Water and wastewater treatment services are purchased from the Maury Service Authority.

The government-wide financial statements include not only the City of Lexington itself (known as the *primary government*), but also a legally separate school district, and the Industrial Development Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lexington, like other state and local governments, uses a fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Lexington maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and the cemetery trust fund, all of which are considered to be major funds, as well as the discretely presented component units- School Board and IDA. Data from the equipment replacement fund is aggregated in the presentation with the general fund.

The City of Lexington adopts an annual appropriated budget for its general fund, school fund, equipment replacement fund, and capital projects fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget.

Proprietary Funds

The City of Lexington maintains one proprietary fund. *An enterprise fund* is used to report the functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer utility fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's water and sewer services.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in the statistical section.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $31,546,768 at the close of the most recent fiscal year. Information on net position over the last ten years may be found in Table 1 of the statistical section of this report.

A portion of the City's net position reflects its unrestricted net position of $12,912,014. The City's investment in capital assets (e.g., land, buildings, improvements, machinery, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets that are still outstanding, was $16,592,550. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's governmental activities net position increased $2,221,099 for the fiscal year ending June 30, 2018. This increase is attributable primarily to increased revenues, including grants, and effective control of expenditures.

City of Lexington's Summary Statement of Net Position
As of June 30, 2018 and 2017
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Gov't		School Board Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Current & other assets	$18,066	$16,278	$5,405	$6,684	$23,741	$23,162	$1,859	$2,140
Capital assets	38,262	38,952	5,668	3,509	43,930	42,461	1,000	868
Total assets	$56,328	$55,230	$11,073	$10,393	$69,726	$65,623	$2,859	$3,008
Deferred outflow of resources	$ 2,126	$2,210	$ 39	$ 135	$ 2,165	$ 2,345	675	$ 687
Long-term liabilities outstanding	$30,816	$32,663	$ 2,782	$3,499	$ 33,598	$35,626	$5,332	$4,909
Other liabilities	1,932	1,594	703	591	2,635	2,722	373	635
Total liabilities	$32,748	$34,257	$3,485	$4,090	$38,555	$38,348	$5,705	$5,544
Deferred inflows of resources	$ 1,302	$ 625	$ 485	$ 62	$ 1,787	$ 687	$ 580	$ 264
Net position:								
Net Investment in capital assets	$13,199	$12,686	$3,393	$ 3,092	$16,592	$15,778	$ 917	$868
Restricted	1,853	1,809	189	---	2,042	1,809	---	---
Unrestricted	9,352	8,062	3,560	3,284	12,912	11,346	(3,669)	(2,981)
Total net position	$24,404	$22,557	$7,143	$6,376	$31,547	$28,993	$(2,767)	$(2,113)

A portion of the City's primary government net position (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the primary government's *unrestricted net position* ($12,912,014) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City's primary government is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

Governmental activities for the City's primary government represent 77% of the City's net position. Over the past fiscal year, the City revenues and expenses for both governmental and business-type activities as well as the School Board component units are as follows:

City of Lexington's Changes in Net Position
as of June 30, 2018 and 2017
(In Thousands)

	Governmental activities		Business-type activities		Total Primary Gov't		School Board Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues:								
Program Revenues:								
Chgs. for svcs.	$1,054	$1,241	$4,610	$4,571	$5,664	$5,812	$ 186	$ 194
Operating grants and contributions	2,527	1,647	---	---	2,527	1,647	3,684	3,596
Capital grants and contributions	--	--	76	94	76	94	---	—
General revenues								---
Property taxes	7,006	6,754	---	---	7,006	6,754	---	—
Other taxes	4,185	4,223	---	---	4,185	4,223	---	—
Grants and contributions not restricted to specific programs	891	903	---	—	891	903	---	—
Other	2,962	2,896	19	11	2,981	2,907	3,084	3,062
Total revenues	$18,625	$17,664	$4,705	$4,676	$,23,330	$22,340	$6,954	$6,852
Expenses:								
General Gov't.	$1,320	$1,394	$ ---	$ ---	$1,320	$1,394	$ ---	$ —
Judicial Admin.	342	333	---	---	342	333	---	—
Public Safety	3,624	3,483	---	—	3,624	3,483	---	—
Public Works	4,426	3,807	---	—	4,426	3,807	---	—
Health & Welfare	835	713	---	—	835	713	---	—
Education	3,683	4,453	---	—	3,683	4,453	6,648	7,039
Parks, Rec. & Cultural	800	694	---	—	800	694	---	—
Community Development	651	1,059	---	—	651	1,059	---	—
Interest on Debt	898	865	---	—	898	865	---	—
Water & Sewer								

Utility	---	---	3,678	4,153	4,153	5,443	---	---
Total Expenses	$ 16,579	$16,801	$3,678	$4,153	$20,257	$20,954	$6,663	$7,039
Changes in net position before transfers	2,046	$863	1,027	523	3,073	1,386	306	(187)
Transfers	175	56	(175)	(56)	---	----	---	----
Changes in net position	2,221	$919	$852	$467	$3,073	$1,386	$ 306	(187)
Net position beginning of year*	22,183	21,639	6,291	5,909	28,474	27,548	$(3,057)	(1,926)
Net position end of year	$24,404	$22,558	$7,143	$6,376	$31,547	$ 28,934	$(2,751)	$(2,113)

*as restated

Governmental Revenues

- Property tax collections were up 3.8%, or $257,957. The real estate tax rate increased from $1.09 to $1.11 per $100 of assessed value. The tax rate on personal property remained at $4.25/$100 value.
- Other local taxes decreased by $38,211, or .9%. Local sales taxes increased by $47,267 or 4.7%. Restaurant food taxes were essentially flat, showing a change of less than .4%, while hotel and motel taxes increased by 1%, or $5,118. Business, professional, and occupation licenses decreased by $116,016, or 16.6%.
- Revenues from the use of money and property increased by $123,114 as a result of higher interest rates.
- The City's major governmental sources of revenue are as follows:

	Amount	Percent of total Revenue
General property taxes	$6,966,499	36%
Other local taxes	4,184,545	22%
Charges for services	838,145	4%
Miscellaneous	2,590,840	14%
Recovered costs	543,186	3%
Intergovernmental	3,417,458	18%

Governmental Expenses

- The general governmental expenses decreased by $47,357.
- Public safety expenses increased by $223,541, or 6%.
- Public Works expenses increased by $291,787, or 7%, due to significant maintenance and capital projects, including street repaving.
- Health and welfare costs increased by $126,355, or 18%, primarily as a result of higher public assistance costs.
- Education costs decreased by $1,585,249, primarily due to construction costs of building a replacement elementary school in the prior fiscal year. The school opened in October 2016.

Business-Type Activities

The increase in net position for business-type activities was $851,533, or 14% from the prior fiscal year, with an end of the year balance of $7,142,542.

Other significant items to note Include:

- A $120,000 loan repayment was transferred to the general fund.
- Charges for water and sewer services increased by $41,861, which included a rate increase averaging 3%.
- Expenses decreased by $474,738, or 11%,
- Significant capital projects were untaken to replace water and sewer lines.

Financial Analysis of the City's Funds

As noted earlier, the City uses a fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular use.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $14,601,812, an increase of $1,539,777 in comparison with the prior year. A total of $1,007,606 is committed for the City's future equipment replacement purchases. The City committed fire department funds totaling $92,059 to be used exclusively for the specific needs of the fire and rescue department, subject to City Council's appropriation. A total of $227,520 is assigned for the carryover of committed projects not completed as of June 30, 2018 in the General Fund. A total of $2,794,787 is committed for capital project needs. A total of $8,625,068 constitutes *unassigned fund balance,* which is available for spending at the government's discretion. The remainder of fund balance is *restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been approved for cemetery maintenance or other miscellaneous ongoing projects not completed as of June 30, 2018.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unassigned fund balance of the general fund was $8,625,068, an increase of $950,189 in comparison with the prior year. As a measure of the adequacy of this fund balance, it may be useful to compare unassigned fund balance, to total fund expenditures and other uses of financing sources. The unassigned fund balance represents 50% or approximately six (6) months of total general fund expenditures and other uses of financing sources.

The City annually updates a five-year capital improvement plan and appropriates the funds necessary to support the ensuing fiscal year's capital projects. Capital projects for the water and sewer enterprise fund and the separate component units of the school, regional tourism, and recreation organization funds are appropriated within each respective fund. However, the City capital projects dependent upon general fund financial resources are appropriated in a separate capital project governmental fund.

At the end of the current fiscal year, the committed fund balance of the capital projects fund, including carryover commitments for June 30, 2018 was $2,796,787, an increase of $479,616.

The permanent fund balance increased by $44,172 for the year to $1,853,326 as a result of investment results.   .

Proprietary Funds

The City's *proprietary fund* provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the utility fund (water and sewer services) at the end of the year amounted to $3,560,093, an increase of $275,910 or 8% in comparison with the prior year. This increase is due primarily to the difference between charges for water and sewer services and expenses associated with providing these services.

General Fund Budgetary Highlights

Differences between the original general fund budget of $17,943,297 and the final amended general fund budget of $19,528,325 reflects an increase in appropriation of $1,585,028 (amounts are exclusive of budgeted amounts related to merged funds for financial statement presentation). Items of significance that are worthy to note are as follows:

- City Council carried over from FY17 to FY18 $978,848 for ongoing projects or activities that could not be completed by June 30, 2017.
- Other significant budget amendments included:
  - $531,444 for paving projects
  - $51,583 in grant funds reimbursing for state mandated dam studies

Final Budget Compared to Actual Results

The most significant differences between estimated revenues and actual revenues were as follows:

	Estimated Revenues	Actual Revenues	Difference
General Property Taxes	$ 6,786,000	$ 6,966,499	$ 180,499
Other Local Taxes	4,260,900	4,184,545	-76,355
Charges for Services	854,170	838,145	-16,025
Miscellaneous	2,461,790	2,590,840	129,050
Intergovernmental	2,607,459	3,105,976	311,482
Recovered Costs	562,750	543,186	-19,564

Actual expenditures were $899,071 less than budgeted for the year.

Capital Asset and Debt Administration

Capital assets

The City's investments in capital assets for its governmental, (including schools) and business-type activities as of June 30, 2018 amounts to $44,930,409 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and infrastructure. The increase in capital assets for the current fiscal year was 4%.

City of Lexington's Capital Assets
(net of depreciation in thousands)

	Primary Government						Component Units	
	Governmental activities		Business-type activities		Total Primary Gov't		School Board Component Unit	
	2018	2017	2018	2017	2018	2017	2018	2017
Land	$2,707	$2,707	$ ---	$ —	$2,707	$2,707	$359	$359
Buildings	28,114	28,861	---	---	28,114	28,861	268	313
Improvements other than buildings	636	617	24	25	660	642	120	—
Infrastructure	3,848	3,800	3,822	2,502	7,670	6,302	---	---
Machinery & Equip.	2,909	2,884	568	660	3,477	3,544	253	195
Construction in Progress	48	83	1,255	322	1,303	405	---	---
Totals	$38,262	$38,952	$ 5,,669	$3,509	$43,931	$42,461	$1,000	$ 867

Additional information on the City of Lexington's capital assets can be found in Note 13 to the financial statements.

Long-term debt

City of Lexington's Outstanding Debt
General Obligation Bonds

	2018	2017
Governmental activities	$26,037,374	$27,334,327
Business-type activities	2,115,000	2,180,000
TOTAL	$28,152,374	$29,514,327

The City's total general obligation debt decreased by $1,296,953, or 4.7% during the current fiscal year. State statutes' limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Lexington is $54,449,000 which is significantly in excess of the City's outstanding general obligation debt.

Revenue Bonds

The City issued $2,180,000 of Revenue Bonds through the Virginia Resource Authority on November 16, 2016 to finance several water and sewer projects. In FY 2018 the City repaid $65,000 of this debt.

Additional information on the City of Lexington's long-term debt can be found in Notes 8 and 9 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 16.

Economic Factors and Next Year's Budgets and Rates

As of June 2018, the unemployment rate for the City of Lexington was 5.4%. This exceeds both the national and state unemployment rates, but was down from the previous year.

Sixty-three percent of the City's assessed real estate values are tax exempt. No change in the real estate, personal property, meals, or transient occupancy taxes rates were implemented in support of the FY 2019 Budget. The FY 2019 Budget does not anticipate using any fund balance to cover FY2019 expenditures. Funding of $1,110,000 for future capital expenditures is included in the Budget.

The water and sewer utility fund rates were increased by 3% for the 2019 budget.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the Finance Director, 300 E. Washington Street, City of Lexington, Virginia 24450.

Basic Financial Statements

Exhibit 1

City of Lexington, Virginia
Statement of Net Position
June 30, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash equivalents	$ 1,722,506	$ 504,760	$ 2,227,266	$ 72,097	$ 47,747
Investments	11,003,742	4,000,000	15,003,742	1,500,000	200,000
Receivables (net of allowance for uncollectibles):					
Taxes receivable	845,160	-	845,160	-	-
Accounts receivable	348,239	711,415	1,059,654	-	-
Due from other governmental units	922,146	-	922,146	105,765	-
Due from others	429,507	-	429,507	-	-
Long-term receivable	940,077	-	940,077	-	-
Prepaid items	1,446	-	1,446	-	-
Restricted assets:					
Cash and cash equivalents (in custody of others)	-	188,878	188,878	-	-
Permanently restricted:					
Cash and cash equivalents	417,801	-	417,801	-	-
Investments	1,435,525	-	1,435,525	-	-
Net Pension asset	-	-	-	181,508	-
Capital assets (net of accumulated depreciation):					
Land	2,707,160	-	2,707,160	359,494	-
Buildings	28,113,688	-	28,113,688	267,508	-
Improvements other than buildings	636,139	23,555	659,694	120,208	-
Machinery and equipment	2,909,206	568,214	3,477,420	253,111	-
Infrastructure	3,847,755	3,821,591	7,669,346	-	-
Construction in progress	47,602	1,255,178	1,302,780	-	-
Total assets	$ 56,327,699	$ 11,073,591	$ 67,401,290	$ 2,859,691	$ 247,747
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	$ 1,323,968	$ -	$ 1,323,968	$ -	$ -
Pension related items	783,510	37,576	821,086	608,833	-
OPEB related items	19,169	1,820	20,989	65,677	-
Total deferred outflows of resources	$ 2,126,647	$ 39,396	$ 2,166,043	$ 674,510	$ -
LIABILITIES					
Accounts payable	$ 926,319	$ 623,183	$ 1,549,502	$ 35,995	$ 59,637
Payroll liabilities	238,951	-	238,951	82,612	-
Contracts payable	-	-	-	226,709	-
Accrued interest payable	288,280	24,800	313,080	-	-
Unearned revenue	-	-	-	27,900	-
Deposits held in escrow	1,187	55,360	56,547	-	-
Unearned grant revenue	476,649	-	476,649	-	-
Long-term liabilities:					
Due within one year	1,491,118	100,821	1,591,939	31,723	-
Due in more than one year	29,325,016	2,681,249	32,006,265	5,301,008	-
Total liabilities	$ 32,747,520	$ 3,485,413	$ 36,232,933	$ 5,705,947	$ 59,637
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	$ 481,777	$ -	$ 481,777	$ -	$ -
Pension related items	761,232	469,086	1,230,318	546,705	-
OPEB related items	59,591	15,946	75,537	33,121	-
Total deferred inflows of resources	$ 1,302,600	$ 485,032	$ 1,787,632	$ 579,826	$ -
NET POSITION					
Net investment in capital assets	$ 13,198,979	$ 3,393,571	$ 16,592,550	$ 917,551	$ -
Restricted:					
Nonexpendabe - perpetual cemetery care	1,853,326	-	1,853,326	-	-
Bond Proceeds	-	188,878	188,878	-	-
Unrestricted (deficit)	9,351,921	3,560,093	12,912,014	(3,669,123)	188,110
Total net position	$ 24,404,226	$ 7,142,542	$ 31,546,768	$ (2,751,572)	$ 188,110

The notes to the financial statements are an integral part of this statement.

Exhibit 2

City of Lexington, Virginia
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
					Primary Government			Component Units	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
PRIMARY GOVERNMENT:									
Governmental activities:									
General government administration	$ 1,360,211	$ 74,962	$ 196,236	$ -	$ (1,089,013)	$ -	$ (1,089,013)	$ -	$ -
Judicial administration	341,750	72,069	71,837	-	(197,844)	-	(197,844)	-	-
Public safety	3,574,454	497,127	557,107	-	(2,520,220)	-	(2,520,220)	-	-
Public works	4,435,197	358,515	866,827	-	(3,209,855)	-	(3,209,855)	-	-
Health and welfare	834,932	12,092	370,390	-	(452,450)	-	(452,450)	-	-
Education	3,683,369	-	-	-	(3,683,369)	-	(3,683,369)	-	-
Parks, recreation, and cultural	800,006	39,813	4,500	-	(755,693)	-	(755,693)	-	-
Community development	651,648	-	460,031	-	(191,617)	-	(191,617)	-	-
Interest on long-term debt	897,802	-	-	-	(897,802)	-	(897,802)	-	-
Total governmental activities	$ 16,579,369	$ 1,054,578	$ 2,526,928	$ -	$ (12,997,863)	$ -	$ (12,997,863)	$ -	$ -
Business-type activities:									
Utility Fund	$ 3,678,089	$ 4,609,948	$ -	$ 76,279	$ -	$ 1,008,138	$ 1,008,138	$ -	$ -
Total primary government	$ 20,257,458	$ 5,664,526	$ 2,526,928	$ 76,279	$ (12,997,863)	$ 1,008,138	$ (11,989,725)	$ -	$ -
COMPONENT UNITS:									
School Board	$ 6,648,485	$ 186,434	$ 3,683,442	$ -	$ -	$ -	$ -	$ (2,778,609)	$ -
Industrial Development Authority	306,239	-	-	-	-	-	-	-	(306,239)
Total component units	$ 6,954,724	$ 186,434	$ 3,683,442	$ -	$ -	$ -	$ -	$ (2,778,609)	$ (306,239)
General revenues:									
General property taxes					$ 7,006,794	$ -	$ 7,006,794	$ -	$ -
Other local taxes:									
Local sales and use taxes					1,061,956	-	1,061,956	-	-
Consumers' utility taxes					310,540	-	310,540	-	-
Business license taxes					581,873	-	581,873	-	-
Restaurant food taxes					1,467,863	-	1,467,863	-	-
Hotel and motel room taxes					539,706	-	539,706	-	-
Other local taxes					222,607	-	222,607	-	-
Unrestricted revenues from use of money and property					371,253	15,585	386,838	5,549	1,136
Miscellaneous					736,580	2,810	739,390	17,093	41,794
Revenue sharing payments					1,854,260	-	1,854,260	-	-
Payments from the City of Lexington/School Board					-	-	-	3,061,628	205,708
Grants and contributions not restricted to specific programs					890,530	-	890,530	-	-
Transfers					175,000	(175,000)	-	-	-
Total general revenues and transfers					$ 15,218,962	$ (156,605)	$ 15,062,357	$ 3,084,270	$ 248,638
Change in net position					$ 2,221,099	$ 851,533	$ 3,072,632	$ 305,661	$ (57,601)
Net position - beginning, as restated					22,183,127	6,291,009	28,474,136	(3,057,233)	245,711
Net position - ending					$ 24,404,226	$ 7,142,542	$ 31,546,768	$ (2,751,572)	$ 188,110

The notes to the financial statements are an integral part of this statement.

Exhibit 3

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2018

	General	Capital Projects	Permanent	Total
ASSETS				
Cash and cash equivalents	$ 1,249,028	$ 2,796,287	$ -	$ 4,045,315
Investments	11,003,742	-	-	11,003,742
Receivables (net of allowance for uncollectibles):				
Taxes receivable	845,160	-	-	845,160
Accounts receivable	348,239	-	-	348,239
Due from other governmental units	922,146	-	-	922,146
Due from others	429,507	-	-	429,507
Long-term receivable	940,077	-	-	940,077
Prepaid items	1,446	-	-	1,446
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	417,801	417,801
Investments	-	-	1,435,525	1,435,525
Total assets	$ 15,739,345	$ 2,796,287	$ 1,853,326	$ 20,388,958
LIABILITIES				
Reconciled overdraft	$ 2,322,809	$ -	$ -	$ 2,322,809
Accounts payable	925,819	500	-	926,319
Payroll liabilities	238,951	-	-	238,951
Deposits held in escrow	187	1,000	-	1,187
Unearned grant revenue	476,649	-	-	476,649
Total liabilities	$ 3,964,415	$ 1,500	$ -	$ 3,965,915
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	$ 881,154	$ -	$ -	$ 881,154
Unavailable revenue - long-term receivable	940,077	-	-	940,077
Total deferred inflows of resources	$ 1,821,231	$ -	$ -	$ 1,821,231
FUND BALANCES				
Nonspendable	$ 1,446	$ -	$ 180,562	$ 182,008
Restricted	-	-	1,672,764	1,672,764
Committed	1,099,665	2,794,787	-	3,894,452
Assigned	227,520	-	-	227,520
Unassigned	8,625,068	-	-	8,625,068
Total fund balances	$ 9,953,699	$ 2,794,787	$ 1,853,326	$ 14,601,812
Total liabilities, deferred inflows of resources and fund balances	$ 15,739,345	$ 2,796,287	$ 1,853,326	$ 20,388,958

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		$ 14,601,812
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	$ 2,707,160	
Buildings	28,113,688	
Improvements other than buildings	636,139	
Infrastructure	3,847,755	
Machinery and equipment	2,909,206	
Construction in progress	47,602	38,261,550
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Unavailable revenue - property taxes	$ 399,377	
Unavailable revenue - long-term receivable	940,077	1,339,454
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Deferred charge on refunding	$ 1,323,968	
Pension related items	783,510	
OPEB related items	19,169	2,126,647
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
General obligation bonds	$ (26,037,377)	
Accrued interest payable	(288,280)	
Net OPEB liabilities	(337,503)	
Net pension liability	(2,628,043)	
Unamortized bond premium	(1,501,044)	
Unamortized bond discount	31,863	
Compensated absences	(344,030)	(31,104,414)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	$ (761,232)	
OPEB related items	(59,591)	(820,823)
Net position of governmental activities		$ 24,404,226

The notes to the financial statements are an integral part of this statement.

Exhibit 5

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General	Capital Projects	Permanent	Total
REVENUES				
General property taxes	$ 6,966,499	$ -	$ -	$ 6,966,499
Other local taxes	4,184,545	-	-	4,184,545
Permits, privilege fees, and regulatory licenses	144,364	-	-	144,364
Fines and forfeitures	72,069	-	-	72,069
Revenue from the use of money and property	282,087	-	89,166	371,253
Charges for services	838,145	-	-	838,145
Miscellaneous	2,590,840	-	-	2,590,840
Recovered costs	543,186	-	-	543,186
Intergovernmental:				
Commonwealth	3,101,560	-	-	3,101,560
Federal	315,898	-	-	315,898
Total revenues	$ 19,039,193	$ -	$ 89,166	$ 19,128,359
EXPENDITURES				
Current:				
General government administration	$ 1,339,253	$ -	$ -	$ 1,339,253
Judicial administration	341,750	-	-	341,750
Public safety	3,937,377	49,804	-	3,987,181
Public works	4,237,716	375,161	-	4,612,877
Health and welfare	837,591	-	-	837,591
Education	3,061,628	111,669	-	3,173,297
Parks, recreation, and cultural	542,352	57,547	36,622	636,521
Community development	649,542	-	-	649,542
Nondepartmental	40,328	-	-	40,328
Debt service:				
Principal retirement	1,296,953	-	-	1,296,953
Interest and other fiscal charges	848,289	-	-	848,289
Total expenditures	$ 17,132,779	$ 594,181	$ 36,622	$ 17,763,582
Excess (deficiency) of revenues over (under) expenditures	$ 1,906,414	$ (594,181)	$ 52,544	$ 1,364,777
OTHER FINANCING SOURCES (USES)				
Transfers in	$ 175,000	$ 1,071,797	$ 13,425	$ 1,260,222
Transfers out	(1,063,425)	-	(21,797)	(1,085,222)
Total other financing sources (uses)	$ (888,425)	$ 1,071,797	$ (8,372)	$ 175,000
Net change in fund balances	$ 1,017,989	$ 477,616	$ 44,172	$ 1,539,777
Fund balances - beginning	8,935,710	2,317,171	1,809,154	13,062,035
Fund balances - ending	$ 9,953,699	$ 2,794,787	$ 1,853,326	$ 14,601,812

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds		$ 1,539,777
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.		
Capital outlays	$ 867,779	
Depreciation expense	(1,499,307)	(631,528)
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to decrease net assets.		(58,938)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	$ 40,295	
Long-term receivable	(81,623)	(41,328)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal repayments:		
General obligation bonds		1,296,953
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
Change in compensated absences	$ (21,999)	
Change in accrued interest payable	(52,800)	
Pension expense	37,629	
OPEB expense	150,046	
Amortization of deferred charge on refunding	(72,387)	
Amortization of bond discount	(4,552)	
Amortization of bond premium	80,226	116,163
Change in net position of governmental activities		$ 2,221,099

The notes to the financial statements are an integral part of this statement.

Exhibit 7

City of Lexington, Virginia
Statement of Net Position
Proprietary Fund
June 30, 2018

	Enterprise Fund
	Utility Fund
ASSETS	
Current assets:	
Cash and cash equivalents	$ 504,760
Investments	4,000,000
Accounts receivable, net of allowance for uncollectibles	711,415
Total current assets	$ 5,216,175
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (in custody of others)	$ 188,878
Capital assets:	
Buildings	$ 113,405
Less accumulated depreciation	(113,405)
Improvements other than buildings	77,717
Less accumulated depreciation	(54,162)
Machinery and equipment	1,159,914
Less accumulated depreciation	(591,700)
Infrastructure	5,733,236
Less accumulated depreciation	(1,911,645)
Construction in progress	1,255,178
Total capital assets	$ 5,668,538
Total noncurrent assets	$ 5,857,416
Total assets	$ 11,073,591
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	$ 37,576
OPEB related items	1,820
Total deferred outflows of resources	$ 39,396
LIABILITIES	
Current liabilities:	
Accounts payable	$ 623,183
Accrued interest payable	24,800
Deposits held in escrow	55,360
Bonds payable - current portion	100,821
Total current liabilities	$ 804,164
Noncurrent liabilities:	
Bonds payable - net of current portion	$ 2,363,024
Net pension liability	249,549
Net OPEB liability	68,676
Total noncurrent liabilities	$ 2,681,249
Total liabilities	$ 3,485,413
DEFERRED INFLOWS OF RESOURCES	
Pension related items	$ 469,086
OPEB related items	15,946
Total deferred outflows of resources	$ 485,032
NET POSITION	
Net investment in capital assets	$ 3,393,571
Restricted for bond proceeds	188,878
Unrestricted	3,560,093
Total net position	$ 7,142,542

The notes to the financial statements are an integral part of this statement.

Exhibit 8

City of Lexington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	Enterprise Fund
	Utility Fund
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	$ 4,609,948
Miscellaneous	2,810
Total operating revenues	$ 4,612,758
OPERATING EXPENSES	
Administration	$ 303,848
Water distribution	804,400
Water storage	1,524
Water service connections	1,563
Water system improvements	608
Wastewater collection	1,976,035
Wastewater service connections	22
Inflow and infiltration	780
Public works personnel	46,412
Campbell Lane pump station	1,151
Lampe Circle Willow Lane wastewater	583
Enfield area sewer improvements	369
Battery Lane water replacement	582
Randolph Street water replacement	2,222
Miscellaneous	2,857
Internal services	231,574
Depreciation	233,567
Total operating expenses	$ 3,608,097
Operating income (loss)	$ 1,004,661
NONOPERATING REVENUES (EXPENSES)	
Interest income	$ 15,585
Interest expense	(69,992)
Total nonoperating revenues (expenses)	$ (54,407)
Income before contributions and transfers	950,254
Capital contributions and construction grants	$ 76,279
Transfers out	(175,000)
Change in net position	$ 851,533
Total net position - beginning, as restated	6,291,009
Total net position - ending	$ 7,142,542

The notes to the financial statements are an integral part of this statement.

Exhibit 9

City of Lexington, Virginia
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	Enterprise Fund
	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 4,473,750
Payments to suppliers	(3,107,233)
Payments to and for employees	(352,974)
Net cash provided by (used for) by operating activities	$ 1,013,543
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	$ (175,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	$ (2,392,873)
Principal payments on bonds	(65,000)
Capital contribution	76,279
Interest payments	(100,434)
Net cash provided by (used for) capital and related financing activities	$ (2,482,028)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale (purchase) of investments	$ (500,000)
Interest and dividends received	15,585
Net cash provided by (used for) investing activities	$ (484,415)
Net increase (decrease) in cash and cash equivalents	$ (2,127,900)
Cash and cash equivalents - beginning, including restricted cash of $2,142,316	2,821,538
Cash and cash equivalents - ending, including restricted cash of $188,878	$ 693,638
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	$ 1,004,661
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	$ 233,567
OPEB expense	(2,700)
Pension expense	(185,729)
(Increase) decrease in accounts receivable	(148,743)
Increase (decrease) in accounts payable	102,752
Increase (decrease) deposits held in escrow	9,735
Total adjustments	$ 8,882
Net cash provided by (used for) operating activities	$ 1,013,543

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2018

	OPEB Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 175,428	$ 774,396
Accounts receivable	-	25,857
Due from other governmental units	-	3,000
Total assets	$ 175,428	$ 803,253
LIABILITIES		
Accounts payable	$ -	$ 69,371
Amount held for others - Central Dispatch	-	237,765
Amount held for others - RARO	-	123,411
Amount held for others - Regional Tourism	-	372,706
Total liabilities	$ -	$ 803,253
NET POSITION		
Net position restricted for postemployment benefits other than pensions	$ 175,428	$ -
Total net position	$ 175,428	$ -

The notes to the financial statements are an integral part of this statement.

Exhibit 11

City of Lexington, Virginia
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2018

		OPEB Trust
ADDITIONS		
Contributions:		
Employer	$	80,717
Investment income:		
Net increase in fair value of investments	$	15,143
Interest and dividends		228
Investment expense		(680)
Net investment income	$	14,691
Total additions	$	95,408
DEDUCTIONS		
Benefit payments	$	80,717
Net increase in net position	$	14,691
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS		
Beginning of year	$	160,737
End of year	$	175,428

The notes to the financial statements are an integral part of this statement.

Note 1-Summary of Significant Accounting Policies:

The financial statements of the City of Lexington, Virginia conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Lexington, Virginia (government) is a municipal corporation governed by an elected seven-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City.

School Board - The Lexington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by City Council. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type. The School Board does not issue separate financial statements; therefore all of the School Board's financial information is presented within this Comprehensive Annual Financial Report.

Industrial Development Authority – Industrial Development Authority serves to promote industry and develop trade by inducing enterprises to locate and remain in Virginia. The City of Lexington appoints the seven directors to the governing board of the Authority. The City does not exercise direct control over the board or its annual budget, but does serve as fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. The Authority is presented as a governmental fund type and has been presented as a nonmajor component unit in this financial report. The Authority does not issue separate financial statements. All of the Authority's financial information is presented within this Comprehensive Annual Report.

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations –

The Rockbridge Regional Library, Rockbridge County Regional Jail Commission, Rockbridge Area Community Services Board, Rockbridge Social Services Board, Rockbridge Area Network Authority, Regional Transit System, Shenandoah Valley Juvenile Detention Home Commission, Rockbridge Area Regional IDA, Rockbridge Area Recreation Organization, Central Dispatch, Regional Tourism, and the Maury Service Authority are considered intergovernmental (joint) ventures and, therefore, their operations are not included in the City's financial report. The Cities of Lexington and Buena Vista and the County of Rockbridge provide financial support and appoint their governing Boards, in which is vested the administration and control over operations.

The City of Lexington and the County of Rockbridge participate in the Blue Ridge Resource Authority which operates a regional landfill. The Authority is governed by a committee comprised of seven members appointed by the participating jurisdictions. City Council appoints two members and has control over the budget and financing of the Authority only to the extent of representation by the members appointed; therefore, the Authority's operations are not included in this financial report.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of net position is designed to display financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide statement of net position and will report depreciation expense – the cost of "using up" capital assets – in the statement of activities. The net position of a government will be broken down into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Note 1-Summary of Significant Accounting Policies: (Continued)

B. Government-wide and fund financial statements (Continued)

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City's fiduciary funds are presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for and reported in other funds.

The *Capital Projects Fund* accounts for and reports financial resources that are restricted, committed or assigned to expenditure for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *Cemetery Trust Fund* (Permanent Fund) accounts for and reports resources that are restricted such that only earnings may be used for purposes that support the reporting government's programs (i.e. for the benefit of the government or its citizens). The Cemetery Trust Fund accounts for investments and related earnings which are used to offset the cost of City cemeteries.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment system and a water treatment plant and distribution system. The activities of the system are accounted for in the Utility Fund.

The government reports the following fiduciary funds:

Fiduciary Funds (Trust and Agency Funds) account for assets held by the City in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The OPEB Trust Fund is one of the fiduciary funds of the City. The Central Dispatch Fund, Regional Area Recreation Organization (RARO), and Regional Tourism (agency funds) are other fiduciary funds of the City. All of the fiduciary funds utilize the accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized. All other investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on June 5th and December 5th. Personal property taxes are pro-rated. The City bills and collects its own property taxes.

4. Inventory

Inventories of supplies are reported at cost while inventories held for resale are stated at the lower of cost or market using the specific identification method. The only significant governmental fund-type inventory is the inventory of rehabilitated properties in the General Fund. The costs of these properties are recorded as expenditures when purchased. Changes in inventory amounts are offset directly to fund balance.

5. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

6. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $64,183 at June 30, 2018 and is comprised solely of property taxes.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

8. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental, business-type activities and discretely presented component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Infrastructure, buildings, improvements and construction projects in excess of $20,000 per project are added to the City's capital assets. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, equipment, and infrastructure of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 50
Improvements other than buildings	10 - 15
Structures, lines, and accessories	20 - 40
Machinery and equipment	2 - 20
Infrastructure	50

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

9. Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use. In the governmental funds, compensated absences for vacation leave are reported only if matured (unused, reimbursable leave, still outstanding following an employee's termination, resignation, death, or retirement). In the primary government and the discretely presented nonmajor component unit - IDA Fund, an employee can accumulate from 24 to 42 days of vacation, based on years of service, and unlimited sick leave. Compensated absences are accrued when incurred in governmental and proprietary funds and reported as a fund liability. In the discretely presented component unit – school board, an employee can accumulate up to 36 days of vacation and 200 days of sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirement. Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it.

10. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

11. Fund equity

The City reports fund balance in accordance with GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. The classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. The City of Lexington, Virginia evaluated its funds at June 30, 2018 and classified fund balance into the following five categories:

Nonspendable -amounts that cannot be spent because they are not in spendable form, such as prepaid items and inventory or are required to be maintained intact (corpus of a permanent fund).

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

11. Fund Equity (Continued)

Restricted -amounts that are restricted by external parties such as creditors or imposed by grants, law or legislation.

Committed -amounts that have been committed can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned -amounts that have been allocated by committee action where the government's intent is to use the funds for a specific purpose. The City of Lexington, Virginia considers this level of authority to be the City Council or any Committee granted such authority by the City Council.

Unassigned -amounts that have no restrictions placed upon them; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance / resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

12. Net Position

Net Position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

13. Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

14. Component Unit – School Board Capital Asset and Debt Presentation

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement to its capital assets. That responsibility lies with the local governing body who issues the debt on behalf of the School Board. However, the *Code of Virginia* requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net Position, this scenario presents a dilemma for the primary government. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net position of the primary government. The corresponding capital assets are reported as assets of the Component Unit – School Board (title holder), thereby increasing its net position.

During the 2002 Virginia General Assembly session, the legislature amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt. The legislation also allows local governments to elect not to acquire a tenancy in common by adopting a resolution to that effect.

The City concluded that, while joint tenancy would resolve a deficit in the primary government's net position, the continual computation process that would be required to allocate principal, interest, asset amount, and depreciation between the City and the School Board would be cumbersome and not provide any added benefit to the financial statements. Therefore, City Council adopted a resolution declining tenancy in common for current and future obligations.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)

15. Pensions

For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Retirement Plan and the additions to/deductions from the City's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the VRS Teacher Employee HIC Program; and the additions to/deductions from the VRS Teacher Employee HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1-Summary of Significant Accounting Policies: (Continued)

17. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has multiple items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension asset/liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset/liability and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition certain items related to the measurement of the net pension asset/liability and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

Note 2-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2018, the City did not have any expenditures in excess of appropriations. Appropriations are not required for the permanent fund; therefore, none have been reported in the schedules.

B. Deficit fund equity

At June 30, 2018, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:

Deposits:
Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:
Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2018 that are outside the cemetery trust fund established to invest perpetual care funds for two cemeteries owned by the City. The City's investments at June 30, 2018 were held in the City's name by the City's custodial bank; except $26,268 of U.S. Treasuries, $549,771 of Mutual Fund Bonds, and $771,208 of Common Stocks, and $82,104 of Other Funds where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings
	AAAm
Local Government Investment Pool	$ 16,453,742
State Non-Arbitrage Pool	188,878

Note 3-Deposits and Investments: (Continued)

Concentration of Credit Risk

At June 30, 2018, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Interest Rate Risk

Investment Type	Fair Value	Maturity Date	Call Options
Mutual Fund Bonds:			
Doubleline FDS TR Total Return	$ 121,431	Upon demand	None
Pimco Fds Invt Grade Corp	120,247	Upon demand	None
Vanguard Total Market Index Fund	134,221	Upon demand	None
Western Asset Core Plus	173,872	Upon demand	None
Local Government Investment Pool	16,453,742	Upon demand	None
State Non-Arbitrage Pool	188,878	Upon demand	None

Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1 Year
Local Government Investment Pool	$ 16,453,742	$ 16,453,742
State Non-Arbitrage Pool	188,878	188,878

The City's investment policy encourages City officials to invest in funds that limit the City's credit risk, custodial credit risk, and interest rate risk.

Investments, as reported in the financial statements, include a non-negotiable certificate of deposit with an original maturity of June 2019 and a balance of $250,000 as of June 30, 2018.

External Investment Pools

The value of the positions in the external investment pool (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pools rest with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 4-Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The City has the following recurring fair value measurements as of June 30, 2018:

		Fair Value Measurement Using		
Investment	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds Bonds	$ 549,771	$ 549,771	$ -	$ -
Common Stocks	771,208	771,208	-	-
U.S. Treasuries	26,268	26,268	-	-
Money Market Mutual Funds	82,104	82,104	-	-

Note 5-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government	Component Unit-School Board
Commonwealth of Virginia:		
Local sales tax	$ 204,144	$ -
Communications sales and use tax	47,014	-
State sales tax	-	79,823
Categorical aid-shared expenses	12,158	-
Other categorical aid	461,942	-
Non-categorical aid	4,574	-
Virginia public assistance funds	1,845	-
Children's services act	134,405	-
Federal Government:		
School grants	-	25,942
Other categorical	56,064	-
Totals	$ 922,146	$ 105,765

Note 6-Interfund Transfers:

Interfund transfers for the fiscal year ended June 30, 2018 consisted of the following:

Fund	Transfers In	Transfers Out
Primary Government:		
General Fund	$ 175,000	$ 1,063,425
Capital Projects Fund	1,071,797	-
Cemetery Fund	13,425	21,797
Utility Fund	-	175,000
Total	$ 1,260,222	$ 1,260,222

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

Note 7-Long-Term Receivable:

The City entered into an agreement with the Counties of Rockbridge and Buena Vista, whereby debt was issued in the City's name for the regional jail. Each locality is responsible for a percentage of the debt payments as they become due each year. As of June 30, 2018, the outstanding balance of the debt was $1,120,019 and the long-term receivable balance was $940,077.

Note 8-Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2018:

	Balance July 1, 2017, restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
General Obligation Bonds	$ 27,334,330	$ -	$ (1,296,953)	$ 26,037,377
Less: Discount on Issuance	(36,415)	-	4,552	(31,863)
Plus: Premiums on Issuance	1,581,270	-	(80,226)	1,501,044
Net OPEB Liabilities	431,472	11,680	(105,649)	337,503
Net Pension Liability	3,421,638	2,187,763	(2,981,358)	2,628,043
Compensated Absences	322,031	102,507	(80,508)	344,030
Total	$ 33,054,326	$ 2,301,950	$ (4,540,142)	$ 30,816,134

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending	General Obligation Bonds	
June 30,	Principal	Interest
2019	$ 1,329,436	$ 809,477
2020	1,361,913	775,439
2021	1,394,596	738,719
2022	1,432,276	704,373
2023	1,470,024	668,230
2024-2028	7,349,132	2,737,534
2029-2033	5,340,000	1,753,570
2034-2038	4,995,000	657,592
2039-2040	1,365,000	50,615
Totals	$ 26,037,377	$ 8,895,549

Note 8-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
General Obligation Bond	0.00%	11/13/2009	2026	$ 8,410,000	$ 4,452,358	$ 494,704
VPSA Bond	0.00%	7/8/2010	2027	1,525,000	810,000	90,000
General Obligation Bond	2.01-4.83%	6/5/2013	2035	9,545,000	8,880,000	335,000
General Obligation Bond	2.52%	4/12/2013	2028	1,582,209	1,120,019	99,732
VPSA Bond	2.675-5.05%	5/15/2014	2040	11,615,000	10,775,000	310,000
Subtotal General Obligation Bonds					$ 26,037,377	$ 1,329,436
Plus: Premium on Issuance					$ 1,501,044	$ 80,226
Less: Discount on Issuance					(31,863)	(4,552)
Total General Obligation Bonds					$ 27,506,558	$ 1,405,110
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	$ 344,030	$ 86,008
Net OPEB Liabilities	n/a	n/a	n/a	n/a	337,503	-
Net Pension Liability	n/a	n/a	n/a	n/a	2,628,043	-
Total Other Obligations					$ 3,309,576	$ 86,008
Total Long-term Obligations					$ 30,816,134	$ 1,491,118

Compensated absences and the pension and OPEB liabilities are liquidated by the City's general fund.

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Note 8-Long-Term Obligations: (Continued)

Primary Government-Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2018:

	Balance July 1, 2017, restated	Increases	Decreases	Balance June 30, 2018
General Obligation Bonds	$ 2,180,000	$ -	$ (65,000)	$ 2,115,000
Plus: Premium on Issuance	379,220	-	(30,375)	348,845
Net Pension Liability	940,173	166,662	(857,286)	249,549
Net OPEB Liability	89,876	(906)	(20,294)	68,676
Total	$ 3,589,269	$ 165,756	$ (972,955)	$ 2,782,070

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	General Obligation Bonds Principal	Interest
2019	$ 70,000	$ 98,150
2020	70,000	94,863
2021	75,000	91,497
2022	80,000	87,775
2023	85,000	83,547
2024-2028	490,000	346,369
2029-2033	630,000	204,338
2034-2037	615,000	52,077
Totals	$ 2,115,000	$ 1,058,616

Note 8-Long-Term Obligations: (Continued)

Primary Government-Business-type Activities Indebtedness: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
General Obligation Bonds:						
General Obligation Bond	4.125%-5.125%	11/18/2016	2037	$2,180,000	$ 2,115,000	$ 70,000
Plus: Premium on Issuance					348,845	30,821
Total General Obligation Bonds					$ 2,463,845	$ 100,821
Other Obligations:						
Net Pension Liability	n/a	n/a	n/a	n/a	$ 249,549	$ -
Net OPEB Liability	n/a	n/a	n/a	n/a	68,676	-
Total Other Obligations					$ 318,225	$ -
Total Long-term Obligations					$ 2,782,070	$ 100,821

The pension and OPEB liabilities are liquidated by the utility fund.

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Note 9-Long-Term Obligations-Component Unit:

Discretely Presented Component Unit-School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the Component-Unit School Board for the year ended June 30, 2018.

	Balance July 1, 2017, restated	Increases	Decreases	Balance June 30, 2018
Capital Lease	$ -	$ 97,766	$ (14,996)	$ 82,770
Compensated Absences	90,868	8,572	(22,717)	76,723
Net Pension Liability	4,818,000	723,000	(1,216,000)	4,325,000
Net OPEB Liabilities	899,884	86,973	(138,619)	848,238
Total	$ 5,808,752	$ 916,311	$ (1,392,332)	$ 5,332,731

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Capital Lease	n/a	n/a	n/a	n/a	$ 82,770	$ 12,542
Compensated Absences	n/a	n/a	n/a	n/a	76,723	19,181
Net Pension Liability	n/a	n/a	n/a	n/a	4,325,000	-
Net OPEB Liabilities	n/a	n/a	n/a	n/a	848,238	-
Total Long-term Obligations					$ 5,332,731	$ 31,723

Compensated absences and the pension and OPEB liabilities are liquidated by the School Operating Fund.

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Note 10-Capital Lease:

The School Board entered into a lease agreement for the acquisition of school buses. The costs of the assets acquired through the capital lease are as follows:

Equipment	$ 97,766
Less: Accumulated Depreciation	(10,184)
Net	$ 87,582

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2018, are as follows:

Year Ending June 30,	Capital Lease
2019	$ 15,687
2020	15,687
2021	15,687
2022	15,687
2023	15,687
2024	15,686
Subtotal	$ 94,121
Less, amounts representing interest	$ (11,351)
Present Value of Lease Agreements	$ 82,770

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Note 11-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through the City of Lexington, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td></td><td></td><td>About the Hybrid Retirement Plan (Cont.)
• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</td><td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• School division employees
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</td></tr>
</table>

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td></td><td></td><td>Vesting (Cont.)
<u>Defined Contribution Component:</u> (Cont.)
Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.
• After two years, a member is 50% vested and may withdraw 50% of employer contributions.
• After three years, a member is 75% vested and may withdraw 75% of employer contributions.
• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.</td></tr>
<tr><td>Calculating the Benefit
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</td><td>Calculating the Benefit
See definition under Plan 1.</td><td>Calculating the Benefit
<u>Defined Benefit Component:</u>
See definition under Plan 1.</td></tr>
</table>

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		**Calculating the Benefit (Cont.)** **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age 60 with at least five years (60 months) of creditable service.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 11-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 11-Pension Plan: (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's contractually required employer contribution rate for the year ended June 30, 2018 was 12.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were $471,254 and $451,906 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the City reported a liability of $2,877,592 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Retirement contributions as of June 30, 2017 and June 30, 2016 were used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 81.3379% and 84.0663%, respectively.

Note 11-Pension Plan: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% if rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Note 11-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Note 11-Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Note 11-Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Note 11-Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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Note 11-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the City Retirement Plan, City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City's proportionate share of the City's Net Pension Liability	$ 5,443,563	$ 2,877,592	$ 726,231

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Note 11-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of $134,321. Sine there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 452,670
Change in assumptions	-	89,081
Net difference between projected and actual earnings on pension plan investments	-	245,418
Changes in proportion and differences between employer contributions and proportionate share of contributions	349,832	443,149
Employer contributions subsequent to the measurement date	471,254	-
Total	$ 821,086	$ 1,230,318

$471,254 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2019	$ (438,090)
2020	(136,436)
2021	(132,119)
2022	(173,841)

Note 11-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	11
Inactive members:	
Vested inactive members	0
Non-vested inactive members	0
Inactive members active elsewhere in VRS	3
Total inactive members	3
Active members	0
Total covered employees	14

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2018 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were $0.00 and $0.00 for the years ended June 30, 2018 and June 30, 2017, respectively, as there are currently no active members in the plan.

Note 11-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Net Pension Asset

The Component Unit School Board's (nonprofessional) net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Changes in Net Pension Liability (Asset)

	Component School Board (nonprofessional) Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 325,066	$ 475,486	$ (150,420)
Changes for the year:			
Interest	$ 21,652	$ -	$ 21,652
Changes of assumptions	1,154	-	1,154
Differences between expected and actual experience	1,754	-	1,754
Net investment income	-	56,045	(56,045)
Benefit payments, including refunds of employee contributions	(31,498)	(31,498)	-
Administrative expenses	-	(348)	348
Other changes	-	(49)	49
Net changes	$ (6,938)	$ 24,150	$ (31,088)
Balances at June 30, 2017	$ 318,128	$ 499,636	$ (181,508)

Note 11-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the Component Unit School Board's (nonprofessional) net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability (Asset)	$ (153,998)	$ (181,508)	$ (205,273)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Component Unit School Board (nonprofessional) recognized pension expense of $(12,292). At June 30, 2018, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 6,705

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (nonprofessional)
2019	$ (5,081)
2020	2,728
2021	425
2022	(4,777)

Note 11-Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were $455,833 and $400,198 for the years ended June 30, 2018 and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the school division reported a liability of $4,325,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.03517% as compared to 0.03438% at June 30, 2016.

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Note 11—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2018, the school division recognized pension expense of $306,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 306,000
Change in assumptions	63,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	90,000	77,000
Net difference between projected and actual earnings on pension plan investments	-	157,000
Employer contributions subsequent to the measurement date	455,833	-
Total	$ 608,833	$ 540,000

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Note 11-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$455,833 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		Component Unit School Board (professional)
2019	$	(183,000)
2020		(22,000)
2021		(51,000)
2022		(130,000)
2023		(1,000)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.95%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Note 11-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

Mortality rates:

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

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Note 11-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (expressed in thousands):

		Teacher Employee Retirement Plan
Total Pension Liability	$	45,417,520
Plan Fiduciary Net Position		33,119,545
Employers' Net Pension Liability (Asset)	$	12,297,975
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		72.92%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	$ 6,459,000	$ 4,325,000	$ 2,560,000

Note 11-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 12-Unearned and Deferred/Unavailable Revenue:

Unearned and deferred/unavailable revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. These amounts consist of the following:

Unearned Revenue:

Primary Government:

Unearned Grants - Grant revenue collected by the City for various purposes that has not met the revenue criteria totaled $476,649.

Discretely Presented Component Unit – School Board:

Unearned Revenue – Tuition revenue collected by the City for students from other localities to attend Lexington City Schools that has not met the revenue criteria totaled $27,900.

Deferred/Unavailable Revenue – Primary Government:

	Government-wide Statements	Balance Sheet
	Governmental Activities	**Governmental Funds**
Unavailable long-term receivable	$ -	$ 940,077
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures	-	399,377
Tax assessments due after June 30	393,940	393,940
June 30 but paid in advance by taxpayers	87,837	87,837
Total	$ 481,777	$ 1,821,231

Note 13-Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 2,707,160	$ -	$ -	$ 2,707,160
Construction in progress	82,446	109,494	(144,338)	47,602
Total capital assets not being depreciated	$ 2,789,606	$ 109,494	$ (144,338)	$ 2,754,762
Capital assets, being depreciated:				
Buildings	$ 33,524,318	$ 12,600	$ -	$ 33,536,918
Improvements other than buildings	1,525,321	97,191	-	1,622,512
Infrastructure	6,713,933	200,986	(30,300)	6,884,619
Machinery and equipment	7,179,719	532,908	(382,305)	7,330,322
Total capital assets being depreciated	$ 48,943,291	$ 843,685	$ (412,605)	$ 49,374,371
Accumulated depreciation:				
Buildings	$ (4,663,278)	$ (759,952)	$ -	$ (5,423,230)
Improvements other than buildings	(907,985)	(78,388)	-	(986,373)
Infrastructure	(2,914,026)	(153,138)	30,300	(3,036,864)
Machinery and equipment	(4,295,592)	(507,829)	382,305	(4,421,116)
Total accumulated depreciation	$ (12,780,881)	$ (1,499,307)	$ 412,605	$ (13,867,583)
Total capital assets being depreciated, net	$ 36,162,410	$ (655,622)	$ -	$ 35,506,788
Governmental activities capital assets, net	$ 38,952,016	$ (546,128)	$ (144,338)	$ 38,261,550

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Note 13-Capital Assets: (Continued)

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Construction in progress	$ 322,629	$ 2,393,181	$ (1,460,632)	$ 1,255,178
Capital assets, being depreciated:				
Buildings	$ 113,405	$ -	$ -	$ 113,405
Improvements other than buildings	77,717	-	-	77,717
Infrastructure	4,958,637	1,451,751	(677,152)	5,733,236
Machinery and equipment	1,154,401	8,573	(3,060)	1,159,914
Total capital assets being depreciated	$ 6,304,160	$ 1,460,324	$ (680,212)	$ 7,084,272
Accumulated depreciation:				
Buildings	$ (113,405)	$ -	$ -	$ (113,405)
Improvements other than buildings	(53,134)	(1,028)	-	(54,162)
Infrastructure	(2,456,510)	(132,287)	677,152	(1,911,645)
Machinery and equipment	(494,508)	(100,252)	3,060	(591,700)
Total accumulated depreciation	$ (3,117,557)	$ (233,567)	$ 680,212	$ (2,670,912)
Total capital assets being depreciated, net	$ 3,186,603	$ 1,226,757	$ -	$ 4,413,360
Business-type activities capital assets, net	$ 3,509,232	$ 3,619,938	$ (1,460,632)	$ 5,668,538

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Note 13-Capital Assets: (Continued)

Primary Government: (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	$ 20,560
Public safety	346,834
Public works	511,068
Education	510,072
Parks, recreation, and culture	109,071
Community development	1,702
Total depreciation expense-governmental activities	$ 1,499,307
Business-type activities:	
Water and Sewer Fund	$ 233,567

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Note 13-Capital Assets: (Continued)

Discretely Presented Component Unit – School Board:

Capital asset activity for the School Board for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 359,494	$ -	$ -	$ 359,494
Capital assets, being depreciated:				
Buildings	$ 1,271,364	$ -	$ -	$ 1,271,364
Improvements other than buildings	-	131,136	-	131,136
Machinery and equipment	435,678	97,766	(184,882)	348,562
Total capital assets being depreciated	$ 1,707,042	$ 228,902	$ (184,882)	$ 1,751,062
Accumulated depreciation:				
Buildings	$ (957,998)	$ (45,858)	$ -	$ (1,003,856)
Improvements other than buildings	-	(10,928)	-	(10,928)
Machinery and equipment	(240,821)	(24,001)	169,371	(95,451)
Total accumulated depreciation	$ (1,198,819)	$ (80,787)	$ 169,371	$ (1,110,235)
Total capital assets being depreciated, net	$ 508,223	$ 148,115	$ (15,511)	$ 640,827
School board capital assets, net	$ 867,717	$ 148,115	$ (15,511)	$ 1,000,321

Depreciation expense was charged to functions of the Discretely Presented Component Unit - School Board as follows:

Education	$80,787

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Note 14-Risk Management:

The City and its component unit – School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit – School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit – School Board pay the Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit – School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 15-Contingent Liabilities:

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction and upgrades of its current wastewater treatment plant. The MSA's debt total $4,199,111 as of June 30, 2018 and is scheduled to be completely retired by June of 2031. The City paid $704,330 to the MSA in FY 18 for half of the debt service; the County of Rockbridge pays an equal assessment. An annual assessment of $704,330 per year is scheduled through fiscal year ending June 30, 2018. The annual assessment will be reduced to $161,504 for fiscal year ending June 30, 2019 thru June 30, 2031.

Note 16-Surety Bonds:

Primary Government:

Virginia Municipal Liability Pool - Surety:	
Pat DeLaney, Treasurer	$ 200,000
Wanda Floyd, Deputy Treasurer	200,000
Karen T. Roundy, Commissioner of Revenue	200,000
S. Roman, Chief of Police	200,000

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Note 17-Service Contracts:

Maury Service Authority: The Maury Service Authority (MSA) provides water filtration and potable water to the City and to Rockbridge County, which in turn sell these same services to their respective residents. During fiscal year 2018, the City paid the MSA $1,779,757 for bulk purchases of water and sewer services, as well as a $704,330 assessment for debt service.

Blue Ridge Resource Authority: The City of Lexington, along with other localities, participates in the Blue Ridge Resource Authority, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2018 was $53.00/ton and $51/ton for refuge disposal for commercial and citizen and municipal customers, respectively, at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and the County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge $1,468,753 for high school student tuition in 2018.

Note 18-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 542 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2018, the City received $1,854,260 from the County representing the revenue sharing payment under this agreement.

Note 19-Litigation:

At June 30, 2018 there were no significant matters of litigation pending involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to the City.

Note 20-Other Postemployment Benefits – Health Insurance:

Plan Description

In addition to the pension benefits described in Note 11, the City administers a cost-sharing defined benefit healthcare plan, the Lexington Post-Retirement Medical Plan (LPRMP). LPRMP provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The LPRMP does not issue a publicly available financial report.

Plan Administration

Investments for the LPRMP are the responsibility of the LPRMP Board.

Benefits Provided

Postemployment benefits are provided to eligible retirees to include healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

Contributions

The LPRMP Board establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The LPRMP Board also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the LPRMP Board. For full-time employees, the City currently contributes between 67.2% and 90.0% and the School Board contributes between 33.7% and 97.6% toward the cost of medical and vision premiums. For fiscal year 2018, the City and School Board contributed $53,822, and $26,895, respectively, in total for current premiums and prefunding amounts. Plan members receiving benefits contributed $30,897 and $13,696 towards health and vision plans, for the City and School Board, respectively.

For retirees of the City and School Board, 100 percent of premiums for both the employee and spouse are the responsibility of the retiree. Coverage under the plan ceases when the employee reaches age 65. For retirees of the School Board, the retiree pays the VRS Health Insurance Credit plus the additional difference between the current Employee Premium and the Employer Subsidy at retirement, if any, for the retiree and 100 percent of premiums for a spouse. Coverage ceases at age 65 of the participant.

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Note 20-Other Postemployment Benefits – Health Insurance: (Continued)

Investment policy

The City of Lexington's OPEB Trust is invested in and administered by the Virginia Pooled OPEB Trust, which establishes the allocation of invested assets. The following was the asset allocation as of June 30, 2018:

Asset Class	Target Allocation
Domestic Equity	40.0%
Internation Equity	20.0%
Fixed Income	20.0%
Diversified Hedge Funds	10.0%
Real Estate	10.0%
	100.0%

Concentrations

The Trust does not hold investments in any one organization that represents five percent or more of the OPEB Trust's Fiduciary Net Position.

Rate of return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 9.60%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources

At June 30, 2018, the City and School Board reported liabilities of $87,567 and $175,238, respectively, for their proportionate share of the Net OPEB Liability. The Net OPEB Liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of May 1, 2017 and rolled forward to that date. At June 30, 2018 and June 30, 2017, the City and School Board's proportion was 33.32% and 66.68%, respectively.

For the year ended June 30, 2018, the City and School Board recognized OPEB expense of $11,642 and $23,297, respectively.

At June 30, 2018, the City and School Board reported for the following deferred inflows of resources related to the LPRMP OPEB from the following sources:

	Deferred Inflows of Resources	
	City	School Board
Net difference between projected and actuatl earnings	$ 1,559	$ 3,121

Note 20-Other Postemployment Benefits – Health Insurance: (Continued)

Schedule of Investment Returns

Last Ten Fiscal Years

Annual Money-Weighted Rate of Return Net of Investment Expense	
6/30/2017	13.07%
6/30/2018	9.60%

The chart is intended to show information for 10 years. More data will be added as it becomes available.

Net OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources (Continued)

Amounts reported as deferred inflows of resources related to the LPRMP OPEB will be recognized in OPEB expense in future reporting periods as follows:

Fiscal Year Ended June 30	City	School Board
2019	$ (390)	$ (780)
2020	(390)	(780)
2021	(390)	(780)
2022	(389)	(781)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary Increases	2.50%
Investment rate of return	5.50%
Healthcare cost trend rates	5.90% for 2017, decreasing 0.10% per year to a rate of 5.70% for 2019 and later years

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Note 20-Other Postemployment Benefits – Health Insurance: (Continued)

Actuarial assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on May 1, 2017 valuation data rolled forward to June 30, 2018. The methods, assumptions, and participant data used can be found in the July 1, 2017 actuarial valuation report.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 (see the discussion of LPRMP's investment policy) are summarized in the following table:

Asset Class	Long Term Expected Rate of Real Geometric Return
Domestic Equity	4.0%
Internation Equity	4.4%
Fixed Income	1.0%
Diversified Hedge Funds	1.7%
Real Estate	2.9%

Discount rate

The discount rate used to measure the total OPEB liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Note 20-Other Postemployment Benefits – Health Insurance: (Continued)

Discount rate (Continued)

The long term expected rate of return on assets has been decreased from 7.5% to 5.5%. The long term expected real rate of real expected rate of return by asset class was based on a survey of several investment firms. The rate was determined based on the following analysis:

Asset Class	Current Allocation	Long Term Expected Rate of Real Geometric Return	Weighted Average
Domestic Equity	40.0%	4.0%	1.6%
Internation Equity	20.0%	4.4%	0.9%
Fixed Income	20.0%	1.0%	0.2%
Diversified Hedge Funds	10.0%	1.7%	0.2%
Real Estate	10.0%	2.9%	0.3%
Total	100.0%		3.2%
Inflation Used for Health Care Trend Assumption			2.3%
Rate of Return			5.5%

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability of the City and School Board, as well as what the City's and School Board's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-spoint lower (4.50%) or one-percentage-point higher (6.50%) than the current discount rate:

	Discount Rate		
	1% Decrease (4.50%)	Current Discount (5.50%)	1% Increase (6.50%)
City's proportionate share of the LPRMP Net OPEB Liability	$ 95,456	$ 87,567	$ 79,497
School Board's proportionate share of the LPRMP Net OPEB Liability	$ 191,028	$ 175,238	$ 159,090

Note 20-Other Postemployment Benefits – Health Insurance: (Continued)

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the healthcare cost trend rates

The following presents the net OPEB liability of the City and School Board, as well as what the City's and School Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower (2.90) or one-percentage-point higher (4.90) than the current healthcare cost trend rates:

	Healthcare Costs		
	1% Decrease (2.90%)	Trend Rate (3.90%)	1% Increase (4.90%)
City's proportionate share of the LPRMP Net OPEB Liability	$ 74,912	$ 87,567	$ 102,331
School Board's proportionate share of the LPRMP Net OPEB Liability	$ 149,913	$ 175,238	$ 204,784

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Note 21—Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the City were $20,989 and $20,292 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions to the Group Life Insurance Program from the School Board were $14,805 and $14,427 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the City and the Component Unit-School Board (professional) reported a liability of $318,612 and $227,000, respectively, for their proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the City's proportion was 0.02517% as compared to 0.02833% at June 30, 2016. At June 30, 2017, the Component-Unit School Board's (professional) proportion was 0.01504% as compared to 0.01459% at June 30, 2016.

For the year ended June 30, 2018, the City and Component Unit-School Board (professional) recognized GLI OPEB expense of $(4,203) and $4,000, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	City		Component Unit-School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 6,726	$ -	$ 4,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	11,769	-	9,000
Change in assumptions	-	16,813	-	12,000
Changes in proportion	-	38,670	7,000	-
Employer contributions subsequent to the measurement date	20,989	-	14,805	-
Total	$ 20,989	$ 73,978	$ 21,805	$ 25,000

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

$20,989 and $14,805 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date from the City and Component Unit-School Board (professional), respectively, will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	City	Component Unit-School Board (professional)
2018	$ (15,132)	$ (4,000)
2019	(15,132)	(4,000)
2020	(15,132)	(4,000)
2021	(15,132)	(4,000)
2022	(11,769)	(2,000)
Thereafter	(1,681)	-

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Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

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Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – SPORS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – JRS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	$	1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 21—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

		Rate	
	1% Decrease	**Current Discount**	**1% Increase**
	(6.00%)	**(7.00%)**	**(8.00%)**
Proportionate share of the Group Life Insurance Program Net OPEB Liability:			
City	$ 411,925	$ 318,612	$ 242,952
Component Unit-School Board (professional)	$ 293,000	$ 227,000	$ 173,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS

Eligible Employees

The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts

The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- **At Retirement** – For Teacher and other professional school employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- **Disability Retirement** – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:
    - $4.00 per month, multiplied by twice the amount of service credit, or
    - $4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Health Insurance Credit Program were $34,872 and $30,797 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of $446,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was 0.03516% as compared to 0.03438% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of $37,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	$ -	$ 1,000
Change in assumptions	-	4,000
Change in proportion	9,000	-
Employer contributions subsequent to the measurement date	34,872	-
Total	$ 43,872	$ 5,000

$34,872 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ 4,000

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality Rates – Teachers

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	$	1,364,702
Plan Fiduciary Net Position		96,091
Teacher Employee net HIC OPEB Liability (Asset)	$	1,268,611
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Note 22—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The follow presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

		Rate	
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	$ 498,000	$ 446,000	$ 402,000

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/ Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 23-Fund Balance Classifications:

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
Nonspendable:			
Prepaids	$ 1,446	$ -	$ -
Corpus	-	-	180,562
Total Nonspendable	$ 1,446	$ -	$ 180,562
Restricted:			
Perpetual cemetery care	$ -	$ -	$ 1,672,764
Committed:			
Fire	$ 92,059	$ -	$ -
Equipment replacement	1,007,606	-	-
Capital projects	-	2,794,787	-
Total Committed	$ 1,099,665	$ 2,794,787	$ -
Assigned:			
Carryovers	$ 227,520	$ -	$ -
Unassigned	$ 8,625,068	$ -	$ -
Total Fund Balance	$ 9,953,699	$ 2,794,787	$ 1,853,326

Fund balance classifications for the component units are as follows:

	School Board	Industrial Development Authority
Committed:		
Special revenue funds	$ 1,304,646	$ 188,110
Total Fund Balance	$ 1,304,646	$ 188,110

Note 24-Subsequent Events:

On October 30, 2018, the City issued bonds payable through the Virginia Resource Authority for the purpose of acquiring, constructing, reconstructing, expanding, and equipping the City's water and wastewater systems. The bonds have a PAR amount of $2,645,000 with coupon rates ranging from 4.125% to 5.125% with a true interest cost of 3.86% and a final maturity of October 31, 2038.

Note 25-Adoption of Accounting Principles:

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the City implemented Governmental Accounting Standards Board Statement No. 85, Omnibus 2017 during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the following restatement of net position:

	Governmental Activities	Business-type Activities	Component Unit School Board
Net Position as reported at July 1, 2017	$ 22,557,809	$ 6,376,511	$ (2,113,072)
Net OPEB obligation (asset)	40,872	-	(89,501)
Net OPEB liabilities	(431,472)	(89,876)	(899,884)
Deferred outflows of resources - OPEB related items	15,918	4,374	45,224
Net Position as restated at July 1, 2017	$ 22,183,127	$ 6,291,009	$ (3,057,233)

Note 26-Upcoming Pronouncements:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Note 26-Upcoming Pronouncements: (Continued)

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

City of Lexington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
General property taxes	$ 6,786,000	$ 6,786,000	$ 6,966,499	$ 180,499
Other local taxes	4,260,900	4,260,900	4,184,545	(76,355)
Permits, privilege fees, and regulatory licenses	215,400	215,400	144,364	(71,036)
Fines and forfeitures	66,500	66,500	72,069	5,569
Revenue from the use of money and property	130,720	130,720	282,087	151,367
Charges for services	854,170	854,170	838,145	(16,025)
Miscellaneous	2,485,634	2,500,132	2,590,840	90,708
Recovered costs	562,750	562,750	543,186	(19,564)
Intergovernmental:				
Commonwealth	2,387,109	2,885,626	3,101,560	215,934
Federal	220,350	314,829	315,898	1,069
Total revenues	$ 17,969,533	$ 18,577,027	$ 19,039,193	$ 462,166
EXPENDITURES				
Current:				
General government administration	$ 1,364,598	$ 1,379,298	$ 1,339,253	$ 40,045
Judicial administration	371,176	371,176	341,750	29,426
Public safety	4,213,760	4,286,865	3,937,377	349,488
Public works	3,400,783	4,879,388	4,237,716	641,672
Health and welfare	877,655	877,655	837,591	40,064
Education	3,061,628	3,061,628	3,061,628	-
Parks, recreation, and cultural	567,345	567,345	542,352	24,993
Community development	781,922	811,459	649,542	161,917
Nondepartmental	84,480	150,838	40,328	110,510
Debt service:				
Principal retirement	1,296,953	1,296,953	1,296,953	-
Interest and other fiscal charges	848,047	848,047	848,289	(242)
Total expenditures	$ 16,868,347	$ 18,530,652	$ 17,132,779	$ 1,397,873
Excess (deficiency) of revenues over (under) expenditures	$ 1,101,186	$ 46,375	$ 1,906,414	$ 1,860,039
OTHER FINANCING SOURCES (USES)				
Transfers in	$ 175,000	$ 175,000	$ 175,000	$ -
Transfers out	(1,067,000)	(1,067,000)	(1,063,425)	3,575
Total other financing sources (uses)	$ (892,000)	$ (892,000)	$ (888,425)	$ 3,575
Net change in fund balances	$ 209,186	$ (845,625)	$ 1,017,989	$ 1,863,614
Fund balances - beginning	-	845,625	8,935,710	8,090,085
Fund balances - ending	$ 209,186	$ -	$ 9,953,699	$ 9,953,699

Note 1-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: the General Fund, the Capital Projects Fund, the Water and Sewer Utility Fund, and the School Operating Fund.

2. Public hearings are conducted to obtain citizen comments.

3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.

4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation for each function level or division of expenditures. The City Manager is authorized to transfer budgeted amounts between departments of a function level of expenditures. The School Board is authorized to transfer budgeted amounts within the departments at the function level of a school system category of expense.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the General Capital Projects Fund. The School Fund is integrated only at the level of legal adoption.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

7. The City commits fund balances for certain designated ongoing projects at fiscal year end. Appropriations are then made in the first quarter budget amendments of the following year for the commitment. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.

8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the City's accounting system.

Exhibit 13

City of Lexington, Virginia
Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)
For the Years Ended June 30, 2015 through June 30, 2018

Date (1)	Proportion of the Net Pension Liability (Asset) (NPLA) (2)	Proportionate Share of the NPLA (3)	Covered Payroll (4)	Proportionate Share of the NPLA as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6)
Primary Government - City Retirement Plan					
2017	81.3379%	$ 2,877,592	$ 3,884,004	74.09%	86.55%
2016	84.0663%	4,361,811	4,274,309	102.05%	80.00%
2015	83.4641%	3,563,259	4,312,572	82.62%	82.87%
2014	83.4641%	3,610,518	4,326,786	83.45%	83.25%
Component Unit School Board (professional)					
2017	0.03517%	$ 4,325,000	2,774,517	155.88%	72.92%
2016	0.03438%	4,818,000	2,619,420	183.93%	68.28%
2015	0.03474%	4,372,000	2,586,134	169.06%	70.68%
2014	0.03517%	4,250,000	2,585,154	164.40%	70.88%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Exhibit 14

City of Lexington, Virginia

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Component Unit School Board (nonprofessional)

For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Interest	$ 21,652	$ 22,411	$ 21,938	$ 22,650
Differences between expected and actual experience	1,154	(1,766)	16,718	-
Changes in assumptions	1,754	-	-	-
Benefit payments, including refunds of employee contributions	(31,498)	(31,460)	(32,349)	(33,291)
Net change in total pension liability	$ (6,938)	$ (10,815)	$ 6,307	$ (10,641)
Total pension liability - beginning	325,066	335,881	329,574	340,215
Total pension liability - ending (a)	$ 318,128	$ 325,066	$ 335,881	$ 329,574
Plan fiduciary net position				
Contributions - employee	$ -	$ -	$ 12,850	$ -
Net investment income	56,045	7,854	22,550	70,087
Benefit payments, including refunds of employee contributions	(31,498)	(31,460)	(32,349)	(33,291)
Administrative expense	(348)	(325)	(326)	(402)
Other	(49)	(4)	(4)	4
Net change in plan fiduciary net position	$ 24,150	$ (23,935)	$ 2,721	$ 36,398
Plan fiduciary net position - beginning	475,486	499,421	496,700	460,302
Plan fiduciary net position - ending (b)	$ 499,636	$ 475,486	$ 499,421	$ 496,700
School Division's net pension liability (asset) - ending (a) - (b)	$ (181,508)	$ (150,420)	$ (163,540)	$ (167,126)
Plan fiduciary net position as a percentage of the total pension liability	157.06%	146.27%	148.69%	150.71%
Covered payroll (1)	$ -	$ -	$ -	$ -
School Division's net pension liability as a percentage of covered payroll	100.00%	100.00%	100.00%	100.00%

(1) There are no active employees on the component unit school board's nonprofessional VRS plan.

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Exhibit 15

City of Lexington, Virginia

Schedule of Employer Contributions

For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2018	$ 471,254	$ 471,254	$ -	$ 4,023,170	11.71%
2017	451,906	451,906	-	3,884,004	11.64%
2016	575,760	575,760	-	4,274,309	13.47%
2015	581,632	581,632	-	4,312,572	13.49%
Component Unit School Board (nonprofessional) (a)					
2011	$ -	$ -	$ -	$ 72,812	0.00%
2010	-	-	-	80,172	0.00%
2009	-	-	-	76,172	0.00%
2008	171	171	-	74,409	0.23%
Component Unit School Board (professional)					
2018	$ 455,833	$ 455,833	$ -	$ 2,835,144	16.08%
2017	400,198	400,198	-	2,774,517	14.42%
2016	365,738	365,738	-	2,619,420	13.96%
2015	373,732	373,732	-	2,586,134	14.45%
2014	301,429	301,429	-	2,585,154	11.66%
2013	298,490	298,490	-	2,559,949	11.66%
2012	152,921	152,921	-	2,415,814	6.33%
2011	89,914	89,914	-	2,287,888	3.93%
2010	152,470	152,470	-	2,439,520	6.25%
2009	216,971	216,971	-	2,462,781	8.81%

(a) There have not been active employees on the component unit school board nonprofessional plan since 2011. Therefore, data after this time period is not presented.

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

Schedule is intended to show information for 10 years. Because the primary government participates with various employers and their information is presented on the cost-sharing basis beginning in 2015, data prior to this period is not available. However, information will be presented as it becomes available.

City of Lexington, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Lexington, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

CITY OF LEXINGTON, VIRGINIA
Schedule of Changes in the City's Net OPEB Liability and Related Ratios
For the Years Ended June 30, 2017 through June 30, 2018

	2018	2017
Total OPEB liability		
Service cost	$ 20,780	$ 20,000
Interest	24,170	26,000
Benefit payments	(80,717)	(70,000)
Net change in total OPEB liability	$ (35,767)	$ (24,000)
Total OPEB liability - beginning	474,000	498,000
Total OPEB liability - ending (a)	$ 438,233	$ 474,000
Plan fiduciary net position		
Contributions - employer	$ 80,717	$ 70,000
Net investment income	14,691	17,576
Benefit payments	(80,717)	(70,000)
Net change in plan fiduciary net position	$ 14,691	$ 17,576
Plan fiduciary net position - beginning	160,737	143,161
Plan fiduciary net position - ending (b)	$ 175,428	$ 160,737
City's net OPEB liability - ending (a) - (b)	$ 262,805	$ 313,263
Plan fiduciary net position as a percentage of the total OPEB liability	40.03%	33.91%
Covered payroll	$ 7,781,386	$ 7,394,172
City's net OPEB liability as a percentage of covered payroll	3.38%	4.24%

This schedule is intended to show information for 10 years. Since 2017 was the first year for this presentation, only two years are available. Additional years will be included as they become available.

City of Lexington, Virginia
Schedule of City's Share of Net OPEB Liability
Health Insurance - LPRMP
For the Years Ended June 30, 2017 through June 30, 2018

Date (1)	Employer's Proportion of the Net OPEB Liability (2)	Employer's Proportionate Share of the Net OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (6)
Primary Government					
2018	33.32%	$ 87,567	$ 4,946,242	1.77%	40.03%
2017	33.32%	104,379	4,619,654	2.26%	33.91%
Component Unit School Board					
2018	66.68%	$ 175,238	$ 2,835,144	6.18%	40.03%
2017	66.68%	208,884	2,774,518	7.53%	33.91%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Exhibit 19

City of Lexington, Virginia

Schedule of Employer Contributions - OPEB

Health Insurance - LPRMP

For the Years Ended June 30, 2017 through June 30, 2018

Date	Contractually Determined Contribution	Contributions in Relation to Actuarially Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
City:					
2018	$ 26,895	$ 26,895	$ -	$ 4,946,242	0.54%
2017	12,000	13,000	(1,000)	4,619,654	0.28%
School Board:					
2018	$ 53,822	$ 53,822	$ -	$ 2,835,144	1.90%
2017	25,000	54,000	(29,000)	2,774,518	1.95%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period	Closed, 30 years as of June 30, 2016
Asset valuation method	Market Value of Assets
Inflation	2.30 percent
Healthcare cost trend rates	Based on Society of Actuaries Long Term Medical Trend Model, as updated September 2016. The pre-65 medical trend was increased to reflect the impact of the Cadillac Tax mandated by the Affordable Care Act. The rate in 2017 is 5.90% and the rate decreases gradually. The rate in 2050 is 5.50% pre Medicare. The ultimate rate is 4.10% pre Medicare and is reached in 2075.
Salary increases	2.50 percent
Investment rate of return	5.50 percent
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2017 actuarial valuation, assumed life expentancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

City of Lexington, Virginia
Schedule of Investment Returns - OPEB
Health Insurance - LPRMP
For the Years Ended June 30, 2017 through June 30, 2018

	2018	2017
Annual money-weighted rate of return, net of investment expense	9.60%	13.07%

This schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, only two years are available. Additional years will be included as they become available.

Exhibit 21

City of Lexington, Virginia
Schedule of City's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2017	0.02517%	$ 318,612	$ 3,884,004	8.20%	48.86%
Component Unit School Board (professional)					
2017	0.01504%	$ 227,000	$ 2,774,517	8.18%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Exhibit 22

City of Lexington, Virginia

Schedule of Employer Contributions

Group Life Insurance Program

For the Years Ended June 30, 2011 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2018	$ 20,989	$ 20,989	$ -	$ 4,023,170	0.52%
2017	20,292	20,292	-	3,884,004	0.52%
Component Unit School Board (professional)					
2018	$ 14,805	$ 14,805	$ -	$ 2,835,144	0.52%
2017	14,427	14,427	-	2,774,517	0.52%
2016	12,675	12,675	-	2,619,420	0.48%
2015	12,413	12,413	-	2,586,134	0.48%
2014	12,409	12,409	-	2,585,154	0.48%
2013	12,288	12,288	-	2,559,949	0.48%
2012	6,776	6,776	-	2,415,814	0.28%
2011	6,406	6,406	-	2,287,888	0.28%

Schedule is intended to show information for 10 years. The Primary Government participates in the Group Life Insurance Program on a cost-sharing basis; therefore, information prior to 2017 is not available. The Component Unit School Board did not participate in the Group Life Insurance Program until 2011; therefore, information prior to this period is not applicable. Additional information will be presented as it becomes available.

City of Lexington, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

City of Lexington, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

CITY OF LEXINGTON, VIRGINIA

Schedule of City School Board's Share of Net OPEB Liability

Teacher Health Insurance Credit Program (HIC)

For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2017	0.3516%	$ 446,000	$ 2,774,517	16.07%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

CITY OF LEXINGTON, VIRGINIA

Schedule of Employer Contributions

Teacher Health Insurance Credit Program (HIC)

For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 34,872	$ 34,872	$ -	$ 2,835,144	1.23%
2017	30,797	30,797	-	2,774,517	1.11%
2016	27,767	27,767	-	2,619,420	1.06%
2015	27,473	27,473	-	2,586,134	1.06%
2014	27,473	27,473	-	2,585,154	1.06%
2013	28,415	28,415	-	2,559,949	1.11%
2012	14,495	14,495	-	2,415,814	0.60%
2011	13,727	13,727	-	2,287,888	0.60%
2010	26,344	26,344	-	2,439,520	1.08%
2009	26,598	26,598	-	2,462,781	1.08%

CITY OF LEXINGTON, VIRGINIA

Notes to Required Supplementary Information

Teacher Health Insurance Credit Program (HIC)

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Other Supplementary Information

CAPITAL PROJECTS FUND

MAJOR GOVERNMENTAL FUNDS

Capital Projects Fund – This fund is used to account for and report the acquisition, construction, and renovation of major capital facilities and other capital assets. These expenditures are financed from grants, the proceeds of certain City general obligation bonds, and from City general resources.

City of Lexington, Virginia
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental:				
Commonwealth	$ 1,570,415	$ 1,570,415	$ -	$ (1,570,415)
EXPENDITURES				
Current:				
Public safety	$ 93,000	$ 93,000	$ 49,804	$ 43,196
Public works	258,000	557,583	375,161	182,422
Education	10,000	160,000	111,669	48,331
Parks, recreation, and cultural	-	79,399	57,547	21,852
Total expenditures	$ 361,000	$ 889,982	$ 594,181	$ 295,801
Excess (deficiency) of revenues over (under) expenditures	$ 1,209,415	$ 680,433	$ (594,181)	$ (1,274,614)
OTHER FINANCING SOURCES (USES)				
Transfers in	$ 1,075,000	$ 1,075,000	$ 1,071,797	$ (3,203)
Net change in fund balances	$ 2,284,415	$ 1,755,433	$ 477,616	$ (1,277,817)
Fund balances - beginning	-	-	2,317,171	2,317,171
Fund balances - ending	$ 2,284,415	$ 1,755,433	$ 2,794,787	$ 1,039,354

Exhibit 28

City of Lexington, Virginia
Combining Statement of Fiduciary Net Position - Agency Funds
June 30, 2018

	Agency Funds			
	Central Dispatch	**RARO**	**Regional Tourism**	**Total**
ASSETS				
Cash and cash equivalents	$ 263,925	$ 136,171	$ 374,300	$ 774,396
Accounts receivable	1,463	24,394	-	25,857
Due from other governmental units	3,000	-	-	3,000
Total assets	$ 268,388	$ 160,565	$ 374,300	$ 803,253
LIABILITIES				
Accounts payable	$ 30,623	$ 37,154	$ 1,594	$ 69,371
Amount held for others - Central Dispatch	237,765	-	-	237,765
Amount held for others - RARO	-	123,411	-	123,411
Amount held for others - Regional Tourism	-	-	372,706	372,706
Total liabilities	$ 268,388	$ 160,565	$ 374,300	$ 803,253

City of Lexington, Virginia
Agency Funds
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and cash equivalents	$ 694,437	$ 3,178,246	$ 3,098,287	$ 774,396
Accounts receivable	39,939	-	14,082	25,857
Due from other governmental units	-	3,000	-	3,000
Total assets	$ 734,376	$ 3,181,246	$ 3,112,369	$ 803,253
LIABILITIES				
Accounts payable	$ 68,744	$ 23,945	$ 23,318	$ 69,371
Amount held for others - Central Dispatch	257,058	-	19,293	237,765
Amount held for others - RARO	135,647	-	12,236	123,411
Amount held for others - Regional Tourism	272,927	99,779	-	372,706
Total liabilities	$ 734,376	$ 123,724	$ 54,847	$ 803,253

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for and reports the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

Exhibit 30

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2018

		School Operating Fund
ASSETS		
Cash and cash equivalents		$ 72,097
Investments		1,500,000
Due from other governmental units		105,765
Total assets		$ 1,677,862
LIABILITIES		
Accounts payable		$ 35,995
Payroll liabilities		82,612
Contracts payable		226,709
Unearned revenue		27,900
Total liabilities		$ 373,216
FUND BALANCES		
Committed		$ 1,304,646
Total fund balances		$ 1,304,646
Total liabilities and fund balances		$ 1,677,862
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above		$ 1,304,646
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	$ 359,494	
Buildings	267,508	
Improvements other than buildings	120,208	
Machinery and equipment	253,111	1,000,321
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Net pension asset		181,508
Deferred outflows of resources are not availalable to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	$ 608,833	
OPEB related items	65,677	674,510
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	$ (76,723)	
Capital lease	(82,770)	
Net pension liability	(4,325,000)	
Net OPEB liabilities	(848,238)	(5,332,731)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	$ (546,705)	
OPEB related items	(33,121)	(579,826)
Net position of governmental activities		$ (2,751,572)

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2018

		School Operating Fund
REVENUES		
Revenue from the use of money and property		$ 5,549
Charges for services		186,434
Miscellaneous		17,093
Recovered costs		31,892
Intergovernmental:		
Local government		3,061,628
Commonwealth		3,370,773
Federal		312,669
Total revenues		$ 6,986,038
EXPENDITURES		
Current:		
Education		$ 7,028,340
Debt service:		
Principal retirement		14,996
Interest and other fiscal charges		691
Total expenditures		$ 7,044,027
Excess (deficiency) of revenues over (under) expenditures		$ (57,989)
OTHER FINANCING SOURCES (USES)		
Proceeds of capital leases		$ 97,766
Net change in fund balances		$ 39,777
Fund balances - beginning		1,264,869
Fund balances - ending		$ 1,304,646
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:		
Net change in fund balances - total governmental funds - per above		$ 39,777
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	$ 228,902	
Depreciation expense	(80,787)	148,115
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase net assets.		(15,511)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt issued or incurred:		
Issuance of capital lease	$ (97,766)	
Principal repayments:		
General obligation bonds	14,996	(82,770)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
Change in compensated absences	$ 14,145	
Pension expense	162,927	
OPEB expense	38,978	216,050
Change in net position of governmental activities		$ 305,661

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2018

	School Operating Fund			
	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Revenue from the use of money and property	$ 4,600	$ 4,600	$ 5,549	$ 949
Charges for services	233,000	233,000	186,434	(46,566)
Miscellaneous	1,000	17,513	17,093	(420)
Recovered costs	10,000	35,338	31,892	(3,446)
Intergovernmental:				
Local government	3,061,628	3,061,628	3,061,628	-
Commonwealth	3,403,255	3,403,255	3,370,773	(32,482)
Federal	243,000	290,604	312,669	22,065
Total revenues	$ 6,956,483	$ 7,045,938	$ 6,986,038	$ (59,900)
EXPENDITURES				
Current:				
Education	$ 6,956,483	$ 7,313,804	$ 7,028,340	$ 285,464
Debt service:				
Principal retirement	-	-	14,996	(14,996)
Interest and other fiscal charges	-	-	691	(691)
Total expenditures	$ 6,956,483	$ 7,313,804	$ 7,044,027	$ 269,777
Excess (deficiency) of revenues over (under) expenditures	$ -	$ (267,866)	$ (57,989)	$ 209,877
OTHER FINANCING SOURCES (USES)				
Proceeds of capital leases	$ -	$ -	$ 97,766	$ 97,766
Net change in fund balances	$ -	$ (267,866)	$ 39,777	$ 307,643
Fund balances - beginning	-	-	1,264,869	1,264,869
Fund balances - ending	$ -	$ (267,866)	$ 1,304,646	$ 1,572,512

DISCRETELY PRESENTED NONMAJOR COMPONENT UNIT

NON MAJOR GOVERNMENTAL FUND

The following discretely presented component unit has been determined by the management of the City of Lexington to be nonmajor.

Industrial Development Authority – This component unit consists of a single General Fund which accounts for the promotion of industry and develop trade by inducing enterprises to locate and remain in Virginia.

Exhibit 33

City of Lexington, Virginia
Balance Sheet
Discretely Presented Nonmajor Component Unit
June 30, 2018

		Industrial Development Authority
ASSETS		
Cash and cash equivalents	$	47,747
Investments		200,000
Total assets	$	247,747
LIABILITIES		
Accounts payable	$	59,637
Total liabilities	$	59,637
FUND BALANCES		
Committed	$	188,110
Total fund balances	$	188,110
Total liabilities and fund balances	$	247,747

Exhibit 34

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Unit
For the Year Ended June 30, 2018

	Industrial Development Authority
REVENUES	
Revenue from the use of money and property	$ 1,136
Miscellaneous	41,794
Intergovernmental:	
Local government	205,708
Total revenues	$ 248,638
EXPENDITURES	
Current:	
Parks, recreation, and cultural	$ 205,708
Community development	100,531
Total expenditures	$ 306,239
Excess (deficiency) of revenues over (under) expenditures	$ (57,601)
Net change in fund balances	$ (57,601)
Fund balances - beginning	245,711
Fund balances - ending	$ 188,110

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Nonmajor Component Unit
For the Year Ended June 30, 2018

	Industrial Development Authority			
	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Revenue from the use of money and property	$ -	$ -	$ 1,136	$ 1,136
Miscellaneous	-	-	41,794	41,794
Intergovernmental:				
Local government	-	-	205,708	205,708
Total revenues	$ -	$ -	$ 248,638	$ 248,638
EXPENDITURES				
Current:				
Parks, recreation, and cultural	$ -	$ -	$ 205,708	$ (205,708)
Community development	-	-	100,531	(100,531)
Total expenditures	$ -	$ -	$ 306,239	$ (306,239)
Excess (deficiency) of revenues over (under) expenditures	$ -	$ -	$ (57,601)	$ (57,601)
Net change in fund balances	$ -	$ -	$ (57,601)	$ (57,601)
Fund balances - beginning	-	-	245,711	245,711
Fund balances - ending	$ -	$ -	$ 188,110	$ 188,110

Supporting Schedules

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	$ 5,695,000	$ 5,695,000	$ 5,815,253	$ 120,253
Real and personal public service corporation taxes	211,000	211,000	223,294	12,294
Personal property taxes	812,000	812,000	857,966	45,966
Penalties	43,000	43,000	40,294	(2,706)
Interest	25,000	25,000	29,692	4,692
Total general property taxes	$ 6,786,000	$ 6,786,000	$ 6,966,499	$ 180,499
Other local taxes:				
Local sales and use taxes	$ 1,035,000	$ 1,035,000	$ 1,061,956	$ 26,956
Consumers' utility taxes	295,000	295,000	310,540	15,540
Consumption taxes	22,900	22,900	26,551	3,651
Business license taxes	625,000	625,000	581,873	(43,127)
Bank stock taxes	112,000	112,000	139,703	27,703
Taxes on recordation and wills	46,000	46,000	56,353	10,353
Hotel and motel room taxes	565,000	565,000	539,706	(25,294)
Restaurant food taxes	1,560,000	1,560,000	1,467,863	(92,137)
Total other local taxes	$ 4,260,900	$ 4,260,900	$ 4,184,545	$ (76,355)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	$ 6,600	$ 6,600	$ 5,873	$ (727)
Building permits	200,000	200,000	122,957	(77,043)
Excavation permits	2,300	2,300	3,700	1,400
Permits and other licenses	6,500	6,500	11,834	5,334
Total permits, privilege fees, and regulatory licenses	$ 215,400	$ 215,400	$ 144,364	$ (71,036)
Fines and forfeitures:				
Court fines and forfeitures	$ 31,500	$ 31,500	$ 42,015	$ 10,515
Parking fines	25,000	25,000	19,975	(5,025)
Courthouse fees	10,000	10,000	9,127	(873)
Asset Forfeiture	-	-	952	952
Total fines and forfeitures	$ 66,500	$ 66,500	$ 72,069	$ 5,569
Revenue from use of money and property:				
Revenue from use of money	$ 95,720	$ 95,720	$ 246,662	$ 150,942
Revenue from use of property	35,000	35,000	35,425	425
Total revenue from use of money and property	$ 130,720	$ 130,720	$ 282,087	$ 151,367
Charges for services:				
Charges for finance	$ 103,600	$ 103,600	$ 72,999	$ (30,601)
Charges for public safety	12,970	12,970	11,397	(1,573)
Charges for youth services	12,300	12,300	12,092	(208)
Charges for public works	23,000	23,000	9,247	(13,753)
Charges for grave openings	46,300	46,300	47,300	1,000
Charges for rescue services	373,000	373,000	341,366	(31,634)
Charges for burial spaces	34,600	34,600	39,000	4,400

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for recreation	$ 50,000	$ 50,000	$ 19,024	$ (30,976)
Charges for sanitation and waste removal	147,000	147,000	156,603	9,603
Charges for landfill fees	31,500	31,500	106,365	74,865
Charges for community activity support	11,400	11,400	10,775	(625)
Charges for farmer's market	8,500	8,500	10,014	1,514
Charges for other services	-	-	1,963	1,963
Total charges for services	$ 854,170	$ 854,170	$ 838,145	$ (16,025)
Miscellaneous:				
Miscellaneous	$ 660,634	$ 675,132	$ 736,580	$ 61,448
County revenue sharing	1,825,000	1,825,000	1,854,260	29,260
Total miscellaneous	$ 2,485,634	$ 2,500,132	$ 2,590,840	$ 90,708
Recovered costs:				
Joint services fire and rescue	$ 428,000	$ 428,000	$ 414,836	$ (13,164)
Joint services jail	128,350	128,350	110,970	(17,380)
Parking Garage	1,400	1,400	1,979	579
Insurance	5,000	5,000	11,934	6,934
Other recovered costs	-	-	3,467	3,467
Total recovered costs	$ 562,750	$ 562,750	$ 543,186	$ (19,564)
Total revenue from local sources	$ 15,362,074	$ 15,376,572	$ 15,621,735	$ 245,163
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	$ 300	$ 300	$ 65	$ (235)
Mobile home titling tax	100	100	-	(100)
Motor vehicle rental tax	2,000	2,000	1,643	(357)
State recordation tax	12,500	12,500	13,638	1,138
Communications tax	300,000	300,000	293,384	(6,616)
Personal property tax relief funds	581,419	581,419	581,419	-
Other noncategorical aid	700	700	381	(319)
Total noncategorical aid	$ 897,019	$ 897,019	$ 890,530	$ (6,489)
Categorical aid:				
Shared expenses:				
Law enforcement	$ 197,440	$ 197,440	$ 197,440	$ -
Commissioner of revenue	78,450	78,450	76,942	(1,508)
Treasurer	62,150	62,150	60,138	(2,012)
Registrar/electoral board	34,900	34,900	35,656	756
Total shared expenses	$ 372,940	$ 372,940	$ 370,176	$ (2,764)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid:				
Street maintenance	$ 693,325	$ 704,979	$ 866,827	$ 161,848
Welfare payments	10,931	10,931	13,296	2,365
Comprehensive services	289,544	289,544	352,188	62,644
VJCCCA grant	72,050	72,050	71,539	(511)
Fire program grant	22,300	22,300	23,587	1,287
Four for life	4,000	4,000	4,079	79
Forfeited asset sharing	-	-	6,116	6,116
Arts grant	4,500	4,500	4,500	-
DOF grant	3,000	3,000	2,168	(832)
DMV grant	10,000	10,000	7,691	(2,309)
State of Good Repair Program	-	457,863	457,863	-
Emergency management grant	7,500	7,500	7,500	-
Other categorical aid	-	29,000	23,500	(5,500)
Total other categorical aid	$ 1,117,150	$ 1,615,667	$ 1,840,854	$ 225,187
Total categorical aid	$ 1,490,090	$ 1,988,607	$ 2,211,030	$ 222,423
Total revenue from the Commonwealth	$ 2,387,109	$ 2,885,626	$ 3,101,560	$ 215,934
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	$ 8,550	$ 8,550	$ 4,906	$ (3,644)
Department of justice grants	4,500	4,500	298	(4,202)
Criminal justice services grant	3,500	3,500	-	(3,500)
FEMA grant	203,800	298,279	310,694	12,415
Total categorical aid	$ 220,350	$ 314,829	$ 315,898	$ 1,069
Total revenue from the federal government	$ 220,350	$ 314,829	$ 315,898	$ 1,069
Total General Fund	$ 17,969,533	$ 18,577,027	$ 19,039,193	$ 462,166
Capital Projects Fund:				
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Stormwater local assistance grant	$ 1,570,415	$ 1,570,415	$ -	$ (1,570,415)
Total Capital Projects Fund	$ 1,570,415	$ 1,570,415	$ -	$ (1,570,415)
Permanent Fund				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	$ -	$ -	$ 89,166	$ 89,166

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Discretely Presented Component Units:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Total Primary Government	$ 19,539,948	$ 20,147,442	$ 19,128,359	$ (1,019,083)
Revenue from the use of money	$ 300	$ 300	$ 1,649	$ 1,349
Revenue from the use of property	4,300	4,300	3,900	(400)
Total revenue from use of money and property	$ 4,600	$ 4,600	$ 5,549	$ 949
Charges for services:				
Cafeteria sales	$ 60,000	$ 60,000	$ 51,814	$ (8,186)
Tuition and payments from other divisions	173,000	173,000	134,620	(38,380)
Total charges for services	$ 233,000	$ 233,000	$ 186,434	$ (46,566)
Miscellaneous:				
Other miscellaneous	$ 1,000	$ 17,513	$ 17,093	$ (420)
Recovered costs:				
Other recovered costs	$ 10,000	$ 35,338	$ 31,892	$ (3,446)
Total revenue from local sources	$ 248,600	$ 290,451	$ 240,968	$ (49,483)
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	$ 3,061,628	$ 3,061,628	$ 3,061,628	$ -
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	$ 646,211	$ 646,211	$ 650,876	$ 4,665
Basic school aid	1,823,596	1,823,596	1,781,267	(42,329)
Gifted and talented	18,724	18,724	18,439	(285)
Remedial education	35,854	35,854	35,308	(546)
Special education	171,304	171,304	168,694	(2,610)
Textbook payment	43,734	43,734	43,068	(666)
Vocational standards of quality payments	28,285	28,285	27,854	(431)
Social security fringe benefits	108,758	108,758	107,101	(1,657)
Retirement fringe benefits	249,387	249,387	245,587	(3,800)
Group life insurance instructional	7,569	7,569	7,454	(115)
State lottery payments	-	-	98,249	98,249
Early reading intervention	11,649	11,649	10,590	(1,059)
Homebound education	55	55	-	(55)
Salary supplement	30,060	30,060	17,333	(12,727)
At risk payments	12,525	12,525	12,818	293
Mentor teacher program	211	211	-	(211)
National Board Certified	-	-	2,500	2,500
Technology	102,000	102,000	102,000	-
School food	1,528	1,528	1,938	410
English as a second language	12,080	12,080	23,380	11,300
Other state funds	99,725	99,725	16,317	(83,408)
Total categorical aid	$ 3,403,255	$ 3,403,255	$ 3,370,773	$ (32,482)
Total revenue from the Commonwealth	$ 3,403,255	$ 3,403,255	$ 3,370,773	$ (32,482)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Discretely Presented Component Units: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Title I	$ 45,000	$ 66,570	$ 71,362	$ 4,792
Title VI-B - Special education, grants to states	15,000	15,000	15,101	101
Title VI-B - Silver grant	143,000	143,000	134,425	(8,575)
National School lunch program	40,000	40,000	68,070	28,070
Title IV, part A	-	10,000	10,000	-
Title II, part D	-	15,000	12,716	(2,284)
Title III	-	1,034	995	(39)
Total categorical aid	$ 243,000	$ 290,604	$ 312,669	$ 22,065
Total revenue from the federal government	$ 243,000	$ 290,604	$ 312,669	$ 22,065
Total School Operating Fund	$ 6,956,483	$ 7,045,938	$ 6,986,038	$ (59,900)
Industrial Development Authority:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	$ -	$ -	$ 1,136	$ 1,136
Miscellaneous:				
Other miscellaneous	$ -	$ -	$ 41,794	$ 41,794
Total revenue from local sources	$ -	$ -	$ 42,930	$ 42,930
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	$ -	$ -	$ 205,708	$ 205,708
Total Industrial Development Authority	$ -	$ -	$ 248,638	$ 248,638
Total Nonmajor Component Units	$ 770,337	$ -	$ 1,525,387	$ 1,525,387

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	$ 48,019	$ 48,019	$ 62,115	$ (14,096)
General and financial administration:				
City manager	$ 205,643	$ 213,143	$ 192,808	$ 20,335
Director of finance	238,619	242,119	239,689	2,430
City attorney	96,500	96,500	96,583	(83)
Commissioner of revenue	247,130	247,130	232,978	14,152
Assessment board	59,520	59,520	56,868	2,652
Treasurer	131,783	131,783	125,302	6,481
Human Resources	118,462	118,462	99,614	18,848
Information technology	150,312	150,312	149,345	967
Total general and financial administration	$ 1,247,969	$ 1,258,969	$ 1,193,187	$ 65,782
Board of elections:				
Electoral board and officials	$ 68,610	$ 72,310	$ 83,951	$ (11,641)
Total general government administration	$ 1,364,598	$ 1,379,298	$ 1,339,253	$ 40,045
Judicial administration:				
Courts:				
Judicial services	$ 290,197	$ 290,197	$ 262,379	$ 27,818
VJCCCA services	80,979	80,979	79,371	1,608
Total judicial administration	$ 371,176	$ 371,176	$ 341,750	$ 29,426
Public safety:				
Law enforcement and traffic control:				
Police department	$ 1,771,340	$ 1,787,814	$ 1,789,738	$ (1,924)
Contributions to Central Dispatch	389,023	389,023	380,922	8,101
Total law enforcement and traffic control	$ 2,160,363	$ 2,176,837	$ 2,170,660	$ 6,177
Fire and rescue services:				
Fire department	$ 1,831,089	$ 1,887,720	$ 1,623,449	$ 264,271
Fire department - reserve activity	11,000	11,000	5,427	5,573
Total fire and rescue services	$ 1,842,089	$ 1,898,720	$ 1,628,876	$ 269,844
Correction and detention:				
Juvenile probation and detention	$ 116,325	$ 116,325	$ 68,542	$ 47,783
Special services	94,983	94,983	69,299	25,684
Total correction and detention	$ 211,308	$ 211,308	$ 137,841	$ 73,467
Total public safety	$ 4,213,760	$ 4,286,865	$ 3,937,377	$ 349,488

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	$ 275,918	$ 411,739	$ 340,857	$ 70,882
Public works labor pool	227,315	227,315	245,494	(18,179)
Equipment operations	384,255	384,255	323,238	61,017
Pavement Maintenance	314,991	963,316	555,347	407,969
Drainage Maintenance	32,773	32,773	31,352	1,421
Snow Removal	78,857	78,857	19,341	59,516
Traffic	237,516	237,516	210,014	27,502
Parking Garage	20,125	24,825	20,650	4,175
Arterial Maintenance	-	457,863	457,863	-
Community activity support	66,848	66,848	46,533	20,315
Right of way improvements	13,547	13,547	1,984	11,563
Public works administration	506,270	506,270	270,377	235,893
Total maintenance of highways, streets, bridges and sidewalks	$ 2,158,415	$ 3,405,124	$ 2,523,050	$ 882,074
Sanitation and waste removal:				
Solid waste management	$ 623,816	$ 651,082	$ 748,169	$ (97,087)
Maintenance of general buildings and grounds:				
General properties	$ 255,428	$ 364,403	$ 555,603	$ (191,200)
Park maintenance	181,572	181,572	150,432	31,140
Cemeteries maintenance	117,800	117,800	113,632	4,168
Dam maintenance	21,076	116,731	109,093	7,638
Brushy Hills maintenance	2,491	2,491	-	2,491
City Arborist	40,185	40,185	37,737	2,448
Total maintenance of general buildings and grounds	$ 618,552	$ 823,182	$ 966,497	$ (143,315)
Total public works	$ 3,400,783	$ 4,879,388	$ 4,237,716	$ 641,672
Health and welfare:				
Health:				
Health and welfare	$ 796,030	$ 796,030	$ 762,761	$ 33,269
Youth services administration	81,625	81,625	74,830	6,795
Total health and welfare	$ 877,655	$ 877,655	$ 837,591	$ 40,064
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	$ 3,061,628	$ 3,061,628	$ 3,061,628	$ -
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	$ 246,134	$ 246,134	$ 251,348	$ (5,214)
Municipal swimming pool	109,336	109,336	85,296	24,040
Contribution to IDA - component unit	211,875	211,875	205,708	6,167
Total parks, recreation, and cultural	$ 567,345	$ 567,345	$ 542,352	$ 24,993

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	$ 376,760	$ 396,760	$ 353,402	$ 43,358
Housing program	-	-	25	(25)
Community development contributions	405,162	414,699	296,115	118,584
Total community development	$ 781,922	$ 811,459	$ 649,542	$ 161,917
Nondepartmental:				
Nondepartmental	$ 84,480	$ 150,838	$ 40,328	$ 110,510
Debt service:				
Principal retirement	$ 1,296,953	$ 1,296,953	$ 1,296,953	$ -
Interest and other fiscal charges	848,047	848,047	848,289	(242)
Total debt service	$ 2,145,000	$ 2,145,000	$ 2,145,242	$ (242)
Total General Fund	$ 16,868,347	$ 18,530,652	$ 17,132,779	$ 1,397,873
Capital Projects Fund:				
General government administration:				
Public safety:				
Fire and rescue services:				
Fire department equipment	$ 93,000	$ 93,000	$ 49,804	$ 43,196
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Moore street drainage improvement	$ -	$ 70,937	$ 65,805	$ 5,132
Walker street drainage project	34,000	34,000	33,276	724
Taylor street reconstruction	13,000	22,800	-	22,800
Miscellaneous storm drainage projects	50,000	91,222	22,852	68,370
Downtown improvement	25,000	35,624	11,730	23,894
Ruffner bridge repairs	-	75,000	66,021	8,979
Public works complex	61,000	86,000	44,421	41,579
Henry street sidewalk	25,000	25,000	14,302	10,698
Sidewalks	50,000	50,000	51,133	(1,133)
Maintenance of parking areas	-	67,000	65,621	1,379
Total public works	$ 258,000	$ 557,583	$ 375,161	$ 182,422
Education:				
Capital projects:				
WES-Replace	$ -	$ 150,000	$ 98,669	$ 51,331
Downing building improvement	10,000	10,000	13,000	(3,000)
Total education	$ 10,000	$ 160,000	$ 111,669	$ 48,331

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Jordan's point park trail connection	$ -	$ 54,399	$ 35,750	$ 18,649
Stonewall Jackson Center	-	25,000	21,797	3,203
Total parks and recreation	$ -	$ 79,399	$ 57,547	$ 21,852
Total Capital Projects Fund	$ 361,000	$ 889,982	$ 594,181	$ 295,801
Permanent Fund:				
Parks, recreation, and cultural:				
Parks and recreation:				
Cemetery	$ -	$ -	$ 36,622	$ (36,622)
Total Primary Government	$ 17,229,347	$ 19,420,634	$ 17,763,582	$ 1,657,052
Discretely Presented Component Units:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, and health	$ 419,612	$ 424,612	$ 411,649	$ 12,963
Instruction costs:				
Classroom instruction	$ 5,715,383	$ 5,762,987	$ 5,578,012	$ 184,975
School food services:				
Administration of school food program	$ 203,988	$ 203,988	$ 204,549	$ (561)
Operating costs:				
Operation and maintenance of school plant	$ 617,500	$ 922,217	$ 834,130	$ 88,087
Total education	$ 6,956,483	$ 7,313,804	$ 7,028,340	$ 285,464
Debt service:				
Principal retirement	$ -	$ -	$ 14,996	$ (14,996)
Interest and other fiscal charges	-	-	691	(691)
Total debt service	$ -	$ -	$ 15,687	$ (15,687)
Total School Fund	$ 6,956,483	$ 7,313,804	$ 7,044,027	$ 269,777
Total Discretely Presented Component Unit - School Board	$ 6,956,483	$ 7,313,804	$ 7,044,027	$ 269,777
Industrial Development Authority:				
Parks, recreation, and cultural:				
Leisure services contributions	$ -	$ -	$ 205,708	$ (205,708)
Community development:				
Economic development	$ -	$ -	$ 100,531	$ (100,531)
Total Industrial Development Authority	$ -	$ -	$ 306,239	$ (306,239)

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Lexington, Virginia's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents **Page**

Financial Trends 156

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity 166

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity 170

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information 176

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information 178

These shedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

Table 1

City of Lexington, Virginia
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets	$ 6,086	$ 7,378	$ 6,955	$ 7,401	$ 7,464	$ 9,090	$ 10,004	$ 11,283	$ 12,687	$ 13,200
Restricted for perpetual care	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700	1,809	1,853
Unrestricted	7,682	9,977	9,721	8,880	10,038	8,804	7,099	8,656	8,062	9,352
Total governmental activities net position	$ 15,037	$ 18,669	$ 18,155	$ 17,684	$ 19,078	$ 19,623	$ 18,827	$ 21,639	$ 22,558	$ 24,405
Business-type activities										
Net investment in capital assets	$ 1,864	$ 1,921	$ 2,036	$ 2,769	$ 2,660	$ 2,869	$ 3,207	$ 3,283	$ 3,092	$ 3,394
Restricted for debt service	-	-	-	-	-	-	-	-	-	189
Unrestricted	627	834	1,204	2,066	2,419	2,700	1,817	2,626	3,284	3,560
Total business-type activities	$ 2,491	$ 2,755	$ 3,240	$ 4,835	$ 5,079	$ 5,569	$ 5,024	$ 5,909	$ 6,376	$ 7,143
Primary Government										
Net investment in capital assets	$ 7,950	$ 9,299	$ 8,991	$ 10,170	$ 10,124	$ 11,959	$ 13,211	$ 14,566	$ 15,779	$ 16,594
Restricted	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700	1,809	2,042
Unrestricted	8,309	10,811	10,925	10,946	12,457	11,504	8,916	11,282	11,346	12,912
Total primary government net position	$ 17,528	$ 21,424	$ 21,395	$ 22,519	$ 24,157	$ 25,192	$ 23,851	$ 27,548	$ 28,934	$ 31,548

City of Lexington, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government administration	$ 1,252	$ 1,292	$ 1,222	$ 1,394	$ 1,203	$ 2,155	$ 1,250	$ 1,124	$ 1,394	$ 1,360
Judicial administration	2,813	258	264	254	285	299	310	353	334	343
Public Safety	2,684	2,586	2,569	2,739	2,945	3,491	3,211	3,141	3,483	3,574
Public Works	3,063	2,971	3,046	2,564	3,210	3,566	3,515	3,153	3,807	4,435
Health and welfare	565	652	751	736	680	816	667	510	713	835
Education	2,553	1,874	3,008	2,559	2,873	2,369	3,191	3,230	4,452	3,683
Parks, recreation and cultural	871	600	530	589	572	745	645	725	694	800
Community development	706	716	1,196	1,108	782	718	726	713	1,059	652
Non-departmental	10	-	-	-	-	-	-	-	-	-
Interest on long-term debt	584	562	602	563	734	597	870	889	865	898
Total governmental activities expenses	$ 15,101	$ 11,511	$ 13,188	$ 12,506	$ 13,284	$ 14,756	$ 14,385	$ 13,838	$ 16,801	$ 16,580
Business-type activities:										
Utility fund	$ 4,497	$ 4,510	$ 4,724	$ 5,254	$ 5,252	$ 5,333	$ 5,280	$ 5,443	$ 4,153	$ 3,678
Total business-type activities	$ 4,497	$ 4,510	$ 4,724	$ 5,254	$ 5,252	$ 5,333	$ 5,280	$ 5,443	$ 4,153	$ 3,678
Total primary government expenses	$ 19,598	$ 16,021	$ 17,912	$ 17,760	$ 18,536	$ 20,089	$ 19,665	$ 19,281	$ 20,954	$ 20,258

City of Lexington, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program Revenues										
Governmental activities:										
Charges for services:										
General government administration	$ 57	$ 68	$ 58	$ 61	$ 65	$ 66	$ 71	$ 71	$ 70	$ 75
Judicial administration	124	95	104	103	108	86	82	58	64	72
Public Safety	410	465	415	462	730	606	498	412	489	497
Public Works	365	384	370	429	384	400	519	583	514	359
Health and welfare	5	4	4	8	8	8	9	11	11	12
Parks, recreation and cultural	88	97	98	88	81	76	80	83	94	40
Community development	2	-	-	-	-	-	-	-	-	-
Operating grants and contributions	1,188	1,327	1,256	1,003	1,608	1,732	1,490	1,158	1,647	2,527
Capital grants and contributions	61	120	126	9	93	13	150	26	-	-
Total governmental activities program revenues	$ 2,300	$ 2,560	$ 2,431	$ 2,163	$ 3,077	$ 2,987	$ 2,899	$ 2,402	$ 2,889	$ 3,582
Business-type activities:										
Charges for services:										
Utility fund	$ 4,615	$ 4,733	$ 5,209	$ 5,649	$ 5,605	$ 5,611	$ 5,790	$ 6,376	$ 4,571	$ 4,610
Capital grants and contributions	-	40	-	-	10	-	-	130	94	76
Total business-type activities program revenues	$ 4,615	$ 4,773	$ 5,209	$ 5,649	$ 5,615	$ 5,611	$ 5,790	$ 6,506	$ 4,665	$ 4,686
Total primary government program revenues	$ 6,915	$ 7,333	$ 7,640	$ 7,812	$ 8,692	$ 8,598	$ 8,689	$ 8,908	$ 7,554	$ 8,268
Net (expense)/revenue:										
Governmental activities	$ (12,801)	$ (8,951)	$ (10,757)	$ (10,343)	$ (10,207)	$ (11,769)	$ (11,486)	$ (11,436)	$ (13,912)	$ (12,998)
Business-type activities	118	263	485	395	363	278	510	1,063	512	1,008
Total primary government net expense	$ (12,683)	$ (8,688)	$ (10,272)	$ (9,948)	$ (9,844)	$ (11,491)	$ (10,976)	$ (10,373)	$ (13,400)	$ (11,990)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 4,337	$ 4,607	$ 4,309	$ 4,770	$ 5,384	$ 5,372	$ 6,434	$ 6,621	$ 6,754	$ 7,007
Local sales and use taxes	791	773	786	818	852	860	1,009	1,041	1,015	1,062
Taxes on recordation and wills	47	49	50	44	60	47	30	54	58	56
Motor vehicle licenses taxes	63	28	-	-	-	-	-	-	-	-

City of Lexington, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenues and Other Changes in Net Position (Continued)										
Governmental activities: (Continued)										
Taxes: (Continued)										
Consumer utility taxes	$ 312	$ 312	$ 313	$ 305	$ 309	$ 313	$ 315	$ 310	$ 308	$ 311
Business licenses taxes	603	534	513	548	631	603	640	717	698	582
Restaurant food taxes	634	620	645	709	890	927	1,074	1,461	1,461	1,467
Hotel and motel room taxes	204	205	217	233	246	254	382	491	535	540
Communications taxes	335	337	-	-	-	-	-	-	-	-
Other local taxes	72	141	164	134	133	141	151	137	147	167
Unrestricted grants and contributions	573	603	938	1,181	688	924	914	911	903	891
Unrestricted revenues from use of money and property	222	169	188	144	304	261	112	148	282	371
Payments from the City of Lexington School Board	-	-	-	-	-	435	149	75	-	-
Miscellaneous	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518	2,505	2,590
Transfers	-	-	-	(1,200)	120	(213)	148	178	56	175
Gain on sale of assets	-	1,926	-	-	-	-	-	-	109	-
Total governmental activities	$ 10,575	$ 12,583	$ 10,243	$ 9,871	$ 11,952	$ 12,247	$ 13,832	$ 14,662	$ 14,831	$ 15,219
Business-type activities:										
Unrestricted revenues from use of money and property	$ -	$ 1	$ -	$ -	$ -	$ -	$ -	$ -	$ 12	$ 17
Transfers	-	-	-	1,200	(120)	213	(148)	(178)	(56)	(175)
Total business-type activities	$ -	$ 1	$ -	$ 1,200	$ (120)	$ 213	$ (148)	$ (178)	$ (44)	$ (158)
Total primary government	$ 10,575	$ 12,584	$ 10,243	$ 11,071	$ 11,832	$ 12,460	$ 13,684	$ 14,484	$ 14,787	$ 15,061
Change in Net Position										
Governmental activities	$ (2,226)	$ 3,632	$ (514)	$ (472)	$ 1,745	$ 478	$ 2,346	$ 3,226	$ 919	$ 2,221
Business-type activities	118	264	485	1,595	243	491	362	885	468	850
Total primary government	$ (2,108)	$ 3,896	$ (29)	$ 1,123	$ 1,988	$ 969	$ 2,708	$ 4,111	$ 1,387	$ 3,071

Table 3

City of Lexington, Virginia
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (1)	Business License Tax	Communications Sales and Use Tax (1)	Motor Vehicle License Tax	Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (1)	Total
2017-18	$ 6,966,499	$ 1,061,956	$ 310,540	$ 581,873	$ -	$ -	$ 139,703	$ 56,353	$ 539,706	$ 1,467,863	$ 26,551	$ 11,151,044
2016-17	6,708,542	1,014,689	308,358	697,889	-	-	120,778	57,619	534,588	1,462,273	26,562	10,931,298
2015-16	6,680,922	1,041,144	309,542	716,749	-	-	112,371	53,594	490,754	1,461,197	25,420	10,891,693
2014-15	6,480,784	1,008,580	314,963	640,123	-	-	124,082	30,455	381,953	1,073,777	26,913	10,081,630
2013-14	5,777,828	860,344	312,675	603,382	-	-	113,372	46,790	254,137	927,288	27,050	8,922,866
2012-13	5,253,894	852,197	308,964	631,105	-	-	107,265	59,632	245,797	889,734	26,265	8,374,853
2011-12	4,806,977	818,287	305,319	548,373	-	-	108,258	44,183	233,214	708,829	25,583	7,599,023
2010-11	4,400,432	785,995	312,810	513,546	-	-	136,218	50,127	217,279	644,721	27,617	7,088,745
2009-10	4,448,766	772,970	312,122	534,270	336,598	27,786	112,451	49,360	205,527	620,422	28,255	7,448,527
2008-09	4,438,289	791,395	312,078	602,665	335,199	62,657	44,386	46,559	204,461	633,501	27,963	7,499,153

(1) The state began a 5% communications sales and use tax on January 1, 2007. This tax was recorded as a local tax beginning in that fiscal year. Beginning in the 2010-11 fiscal year the City has been informed that the tax should be recorded as revenues from the Commonwealth. The state collects the Telephone utility taxes, local E-911 taxes, and cable television system franchise fees and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdiction's allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for each fiscal year.

Table 4

City of Lexington, Virginia
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011 (1)	2012	2013	2014	2015	2016	2017	2018
General Fund										
Unreserved	$ 6,842,571	$ 8,902,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Nonspendable	-	-	104,062	147,003	61,688	3,829	3,943	117,557	754	1,446
Restricted	-	-	-	-	1,493,396	12,006,641	9,556,723	2,227,751	-	-
Committed	-	-	1,205,144	1,392,938	775,143	752,075	757,277	896,379	920,126	1,099,665
Assigned	-	-	247,525	409,701	170,495	251,578	203,763	336,982	342,177	227,520
Unassigned	-	-	7,206,302	5,080,601	5,817,394	7,157,866	8,122,812	7,924,727	7,672,653	8,625,068
Total general fund	$ 6,842,571	$ 8,902,100	$ 8,763,033	$ 7,030,243	$ 8,318,116	$ 20,171,989	$ 18,644,518	$ 11,503,396	$ 8,935,710	$ 9,953,699
All other governmental funds										
Reserved, reported in:										
Permanent Fund	$ 1,268,677	$ 1,314,149	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Capital Projects	224,876	185,226	-	-	-	-	-	-	-	-
Nonspendable										
Permanent Fund	-	-	180,562	180,562	180,562	180,562	180,562	180,562	180,562	180,562
Restricted										
Permanent Fund	-	-	1,194,752	1,221,878	1,395,556	1,547,928	1,543,894	1,519,090	1,628,592	1,672,764
Committed										
Capital Projects	-	-	271,289	1,132,511	982,052	999,423	1,008,306	350,843	2,317,171	2,794,787
Total all other governmental funds	$ 1,493,553	$ 1,499,375	$ 1,646,603	$ 2,534,951	$ 2,558,170	$ 2,727,913	$ 2,732,762	$ 2,050,495	$ 4,126,325	$ 4,648,113

(1) The City implemented GASB 54 during the fiscal year ended June 30, 2011.

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
General property taxes	$ 4,438	$ 4,449	$ 4,400	$ 4,807	$ 5,254	$ 5,778	$ 6,481	$ 6,681	$ 6,709	$ 6,966
Other local taxes	3,061	3,000	2,688	2,792	3,121	3,145	3,601	4,211	4,223	4,185
Licenses and permits	79	100	56	94	255	187	82	62	129	144
Fines and forfeitures	124	95	100	103	108	86	82	59	64	72
Use of money & property	222	169	188	144	304	261	112	148	282	371
Charges for services	848	918	894	954	1,013	969	1,096	1,097	1,048	838
Miscellaneous	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518	2,506	2,591
Recovered costs	180	179	155	221	235	415	433	476	539	543
Intergovernmental	1,821	2,050	2,320	2,193	2,388	3,105	2,703	2,170	2,550	3,417
Total revenues	$ 13,155	$ 13,239	$ 12,921	$ 13,493	$ 15,013	$ 16,269	$ 17,064	$ 17,422	$ 18,050	$ 19,127
Expenditures										
General government administration	$ 1,175	$ 1,204	$ 1,168	$ 1,364	$ 1,258	$ 2,096	$ 1,289	$ 1,200	$ 1,321	$ 1,339
Judicial administration	4,389	259	266	256	285	299	310	353	333	342
Public safety	2,689	2,540	2,490	2,715	3,111	3,799	3,375	3,320	3,589	3,736
Public works	3,002	2,624	2,719	2,224	2,917	3,134	3,184	2,917	3,410	3,996
Health and Welfare	565	652	751	736	680	816	669	510	711	838
Education	2,553	1,873	2,858	2,379	2,711	2,215	3,012	3,033	3,056	3,173
Parks, recreation and cultural	1,539	533	448	508	669	474	530	594	578	637
Community development	697	711	1,194	1,100	1,579	714	737	725	1,059	650
Nondepartmental	95	-	-	-	(5)	20	7	459	371	40
Capital outlay(1)	-	8,437	1,164	520	843	1,388	3,992	8,786	2,354	868
Debt service:										
Principal	689	1,328	835	840	850	987	965	1,242	1,265	1,297
Interest	574	560	534	495	529	450	664	901	875	848
Bond Issuance Costs	-	115	-	-	200	130	-	-	-	-
Total Expenditures	$ 17,967	$ 20,836	$ 14,427	$ 13,137	$ 15,627	$ 16,522	$ 18,734	$ 24,040	$ 18,922	$ 17,764
Excess (deficiency) of revenues over (under) expenditures	$ (4,812)	$ (7,597)	$ (1,506)	$ 356	$ (614)	$ (253)	$ (1,670)	$ (6,618)	$ (872)	$ 1,363

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Other financing sources (uses)										
Transfers in	$ 1,640	$ 85	$ 177	$ 1,100	$ 540	$ 580	$ 3,474	$ 8,070	$ 4,421	$ 1,260
Transfers out	(1,650)	(95)	(193)	(2,300)	(420)	(460)	(3,327)	(7,892)	(4,365)	(1,085)
Refunding general obligation bonds issued	-	-	-	-	9,545	-	-	-	-	-
General obligation bonds issued	-	8,410	1,530	-	1,582	11,615	-	-	-	-
Premium on bonds issued	-	-	-	-	1,408	475	-	-	-	-
Discount on bonds issued		(787)	-	-	-	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	(10,730)	-	-	-	-	-
Sale of capital assets	-	2,049	-	-	-	-	-	-	325	-
Total other financing sources (uses)	$ (10)	$ 9,662	$ 1,514	$ (1,200)	$ 1,925	$ 12,210	$ 147	$ 178	$ 381	$ 175
Net change in fund balances	$ (4,822)	$ 2,065	$ 8	$ (844)	$ 1,311	$ 11,957	$ (1,523)	$ (6,440)	$ (491)	$ 1,538
Debt service as a percentage of noncapital expenditures	7.0%	15.4%	10.3%	10.6%	9.5%	9.6%	11.1%	14.0%	12.9%	12.7%

(1) Capital outlay has been reclassified as a separate item for calculation of debt service as a percentage of noncapital expenditures.

Table 6

City of Lexington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety (2)	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural (2)	Community Development (2)	Capital Outlay and Non-departmental	Debt Service (3)	Total
2017-18	$ 1,339,253	$ 341,750	$ 3,937,377	$ 4,237,716	$ 837,591	$ 7,028,340	$ 578,974	$ 750,073	$ 634,509	$ 2,145,242	$ 21,830,825
2016-17	1,320,899	333,424	3,589,118	3,409,724	711,236	6,695,174	577,713	1,137,737	2,725,544	2,139,917	22,640,486
2015-16	1,200,460	353,210	3,319,963	2,917,207	509,789	6,248,459	594,051	788,618	9,245,806	2,142,662	27,320,225
2014-15	1,299,415	309,949	3,473,764	3,306,441	669,108	9,609,873	938,158	1,309,780	385,346	1,629,039	22,930,873
2013-14	2,095,873	298,767	4,988,524	3,291,126	815,818	6,028,885	922,446	1,366,217	346,841	1,567,448	21,721,945
2012-13	1,258,495	284,745	4,050,943	2,916,722	679,526	5,892,438	1,074,043	2,009,488	972,864	1,578,715	20,717,979
2011-12	1,368,474	255,637	3,698,111	2,527,005	736,376	5,715,144	878,752	1,540,627	131,567	1,334,738	18,186,431
2010-11	1,177,305	266,021	3,394,205	2,726,651	750,685	5,413,345	881,224	1,535,543	1,778,862	1,369,051	19,292,892
2009-10	1,204,011	258,442	3,931,851	2,652,364	652,146	5,619,260	1,263,941	1,079,782	7,638,873	2,002,705	26,303,375
2008-09	1,174,738	4,388,867	3,528,376	3,001,609	565,015	5,686,236	1,907,914	1,047,911	359,516	1,263,770	22,923,952

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.
(2) Excludes contribution from Primary Government to Discretely Presented Component Units.
(3) Included bond issuance costs.

Table 7

City of Lexington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2017-18	$ 6,966,499	$ 4,184,545	$ 144,364	$ 72,069	$ 377,938	$ 1,024,579	$ 2,649,727	$ 575,078	$ 7,100,900	$ 23,095,699
2016-17	6,708,542	4,222,756	129,414	63,826	287,607	1,242,144	2,541,432	550,137	6,146,404	21,892,262
2015-16	6,680,922	4,210,771	62,288	58,464	155,793	1,314,508	2,567,302	488,995	5,347,959	20,887,002
2014-15	6,480,784	3,600,846	82,094	82,296	117,913	1,433,070	2,523,031	1,136,904	5,728,830	21,185,768
2013-14	5,777,828	3,145,038	186,917	86,086	275,322	1,300,508	2,365,705	2,073,946	5,655,511	20,866,861
2012-13	5,253,894	3,120,959	254,912	107,569	313,113	1,377,050	2,379,972	1,800,565	5,378,773	19,986,807
2011-12	4,806,977	2,792,046	94,381	102,896	149,060	1,311,018	2,344,704	1,677,147	5,477,318	18,755,547
2010-11	4,400,432	2,688,313	55,990	99,749	191,010	1,233,914	2,163,175	1,486,532	5,474,333	17,793,448
2009-10	4,448,766	2,999,761	100,173	95,052	172,102	1,269,175	2,309,581	1,525,785	6,066,781	18,987,176
2008-09	4,438,289	3,060,864	79,233	124,101	225,741	1,210,743	2,402,114	1,573,645	5,400,599	18,515,329

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.
(2) Excludes contributions from Primary Government to Discretely Presented Component Units.

Table 8

City of Lexington, Virginia
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

	Real Property		Personal Property						
Fiscal Year Ended June 30,	Residential Property	Commercial Property	Motor Vehicles	Other	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
2018	$ 412,057	$ 1,062,469	$ 38,342	$ 6,266	$ 930,038	$ 589,096	$ 13.469	$ 1,519,134	38.78%
2017	410,592	1,059,482	35,308	6,021	927,958	583,445	13.131	1,511,403	38.60%
2016	408,387	1,061,175	37,414	6,374	927,890	585,460	13.251	1,513,350	38.69%
2015	405,556	1,061,707	35,559	6,172	927,491	581,503	12.579	1,508,994	38.54%
2014	458,760	737,321	33,222	5,317	610,000	624,620	10.395	1,234,620	50.59%
2013	456,949	737,275	31,662	3,524	609,984	619,426	9.825	1,229,410	50.38%
2012	456,974	735,119	29,596	3,429	609,918	615,200	9.186	1,225,117	50.22%
2011	457,743	733,849	28,783	3,575	609,459	614,491	9.045	1,223,951	50.21%
2010	481,790	651,114	27,674	3,843	529,967	634,454	8.282	1,164,421	54.49%
2009	481,194	650,986	26,873	3,386	531,597	630,842	7.936	1,162,439	54.27%

Source: Commissioner of Revenue

Table 9

City of Lexington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility Real Estate	Public Utility Personal Property	Total Direct Rate
2017-18	$ 1.11	$ 4.25	$ 1.11	$ 4.25	$ 1.10	$ 4.25	$ 13.469
2016-17	1.09	4.25	1.09	4.25	1.09	4.25	13.131
2015-16	1.09	4.25	1.09	4.25	1.06	4.25	13.251
2014-15	1.03	4.25	1.03	4.25	0.93	4.25	12.579
2013-14	0.83	4.25	0.83	4.25	0.805	4.25	10.395
2012-13	0.78	4.25	0.73	4.25	0.755	4.25	9.825
2011-12	0.73	4.25	0.73	4.25	0.715	4.25	9.186
2010-11	0.70	4.25	0.70	4.25	0.675	4.25	9.045
2009-10	0.65	4.25	0.65	4.25	0.640	3.95	8.282
2008-09	0.64	3.95	0.64	3.95	0.618	3.95	7.936

(1) Per $100 of assessed value.
Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2018

	Fiscal year ended June 30, 2018			Fiscal year ended June 30, 2009		
Taxpayer Name	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Virginia Electric & Power Co.	$ 7,399,362	1	1.36%	$ 4,440,232	4	0.74%
HI of Lexington, LLC	5,989,300	2	1.10%	5,978,300	1	1.00%
Central Telephone Co. of Virginia	5,031,062	3	0.92%	5,862,563	2	0.98%
Columbia Gas of Va, Inc	4,824,559	4	0.89%			
Robert E Lee Properties LLC	3,812,300	5	0.70%			
HCFM XXII Partnership	3,429,600	6	0.63%	3,428,200	8	0.57%
Summit Square Partners	3,192,700	7	0.59%	3,084,300	10	0.51%
BB & T Bank	3,130,600	8	0.57%			
Rockbridge Square Associates	3,084,000	9	0.57%	3,485,900	7	0.58%
Kroger Limited Partnership, Inc.	3,075,600	10	0.56%	3,330,700	9	0.55%
Washington & Lee University				5,432,200	3	0.90%
Walker/ Wood LC & Woods Family Trust				3,923,000	6	0.65%
Lexington House Associates				4,180,200	5	0.70%
	$ 42,969,083		7.89%	$ 43,145,595		7.18%

(1) Total assessed valuation of real estate was $544,487,894 as of June 30, 2018.
(2) Total assessed valuation of real estate was $600,832,464 of June 30, 2009.
Source: Commissioner of Revenue and Finance Department

Table 11

City of Lexington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 2)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Collections in Subsequent Years (3)	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2017-18	$ 7,528,950	$ 6,727,745	89.36%	$ 238,754	$ 6,966,499	92.53%	$ -	$ 183,208	2.43%
2016-17	7,424,405	6,587,784	88.73%	94,966	6,682,750	90.01%	7,683	125,205	1.69%
2015-16	7,515,788	6,535,830	86.96%	121,065	6,656,895	88.57%	522,588	127,632	1.70%
2014-15	7,084,639	6,106,748	86.20%	156,621	6,263,369	88.41%	930,335	83,253	1.18%
2013-14	6,293,593	5,434,465	86.35%	242,740	5,677,205	90.21%	825,456	80,552	1.28%
2012-13	5,860,438	5,030,209	85.83%	148,707	5,178,916	88.37%	800,312	34,627	0.59%
2011-12	5,482,776	4,640,415	84.63%	113,296	4,753,711	86.70%	823,696	31,976	0.58%
2010-11	5,259,055	4,285,272	81.48%	67,102	4,352,374	82.76%	957,297	27,822	0.53%
2009-10	5,089,509	4,310,028	84.68%	86,242	4,396,270	86.38%	761,234	31,819	0.63%
2008-09	4,842,235	4,257,797	87.93%	42,712	4,300,509	88.81%	569,113	27,570	0.57%

(1) Exclusive of penalties and interest.
(2) Includes original levy for real estate taxes collected on a fiscal year basis and personal property taxes collected on a calendar year basis. Also, includes supplemental levies for all tax years.
(3) Collections in subsequent years includes amounts received from the state for the Personal Property Tax Relief Act.

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities	Business-Type Activities			
Fiscal Year	General Obligation Bonds	General Obligation Bonds	Total Primary Government	Percentage of Personal Income (1)	Per Capita
2018	$ 27,506,558	$ 2,115,000	$ 29,621,558	(1)	$ 3,865
2017	27,334,326	2,180,000	29,514,326	(1)	4,052
2016	28,598,857	-	28,598,857	10.31%	3,917
2015	29,840,929	-	29,840,929	10.82%	4,027
2014	30,805,796	-	30,805,796	12.76%	4,203
2013	18,595,884	-	18,595,884	7.28%	2,536
2012	19,570,590	-	19,570,590	7.76%	2,660
2011	20,410,294	-	20,410,294	8.85%	2,836
2010	19,715,000	-	19,715,000	9.07%	2,800
2009	12,203,899	-	12,203,899	5.32%	1,676

(1) Income information is unavailable.

Table 13

City of Lexington, Virginia
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less: Debt Payable from Enterprise Fund	Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2017-18	(5)	$ 544,488	$ 29,621,558	$ 2,115,000	$ 27,506,558	5.05%	$ 3,575
2016-17	7,284	542,116	29,514,326	2,180,000	27,334,326	5.04%	3,744
2015-16	7,301	541,672	28,598,857	-	28,598,857	5.28%	3,917
2014-15	7,410	539,772	29,840,929	-	29,840,929	5.53%	4,027
2013-14	7,329	586,081	30,805,796	-	30,805,796	5.26%	4,203
2012-13	7,332	619,426	18,595,884	-	18,595,884	3.00%	2,536
2011-12	7,356	615,200	19,570,590	-	19,570,590	3.18%	2,660
2010-11	7,197	614,491	20,410,294	-	20,410,294	3.32%	2,836
2009-10	7,042	634,453	19,715,000	-	19,715,000	3.11%	2,800
2008-09	7,282	630,842	12,203,899	-	12,203,899	1.93%	1,676

(1) Weldon Cooper Center for Public Service Demographics & Workforce Group, www.coopercenter.org
(2) Real property assessed at 100% of fair market value.
(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans. Excludes compensated absences.

(4)FY 2009-10, City issued $8,410,000 in general obligation debt to fund the City's renovation and addition to the middle school capital project. FY 2010-11, City issued $1,530,000 in general obligation bonds to complete the city's renovation and addition to the middle school capital project. FY 2012-13, City issued $9,545,000 in general obligation bonds to refinance $9,670,000 of the bonds issued in FY 2005-06 for the circuit court complex. FY 2012-13, the City issued $1,582,209 in general obligation bonds to finance a renovation project at the Rockbridge Regional Jail. FY 2013-14 the City issued $11,615,000 in general obligation bonds to finance a new elementary school.
(5) Not available

Table 14

City of Lexington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2017-18	$ 1,296,953	$ 848,289	$ 2,145,242	$ 21,830,825	9.8%
2016-17	1,264,531	875,386	2,139,917	22,640,486	9.5%
2015-16	1,242,072	900,590	2,142,662	27,320,225	7.8%
2014-15	964,863	664,176	1,629,039	22,930,873	7.1%
2013-14	987,297	449,762	1,437,059	21,721,945	6.6%
2012-13	849,704	529,150	1,378,854	20,717,979	6.7%
2011-12	839,704	495,034	1,334,738	18,186,431	7.3%
2010-11	834,706	534,345	1,369,051	19,292,892	7.1%
2009-10	1,327,992	533,785	1,861,777	26,303,375	7.1%
2008-09	689,358	574,412	1,263,770	22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%

(1) Includes General, Special Revenue, Capital Projects funds of the Primary Government and the Discretely Presented Component Units.
(2) Information from Table 6.

Table 15

City of Lexington, Virginia
Direct and Overlapping Governmental Activities Debt
As of June 30, 2018

Government Unit:	Debt Outstanding	Estimated Percentage Applicable	Amount Applicable to Primary Government
None	$ -	0.00%	$ -
City of Lexington, direct debt			$ 27,506,558
Total direct and overlapping debt			$ 27,506,558

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This table estimates the portion of the outstanding debt of those overlapping government's that is borne by the residents and businesses of the City of Lexington. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt, of each overlapping government. At June 30, 2018, the City did not have any overlapping debt.

Source: City of Lexington, Virginia

Table 16

City of Lexington, Virginia
Computation of Legal Debt Margin
June 30, 2018
(amounts expressed in thousands)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	$ 60,058	$ 60,294	$ 58,213	$ 58,218	$ 58,424	$ 58,608	$ 53,977	$ 54,167	$ 54,212	$ 54,449
Total net debt applicable to limit	12,204	19,715	20,410	19,571	18,596	30,806	29,841	28,599	27,334	26,037
Legal debt margin	47,854	40,579	37,803	38,647	39,828	27,802	24,136	25,568	26,878	28,412
Total net debt applicable to the limit as a percentage of debt limit	20.3%	32.7%	35.1%	33.6%	31.8%	52.6%	55.3%	52.8%	50.4%	47.8%

Legal Debt Margin Calculated for Fiscal Year 2018

Assessed value	$ 544,488
Debt limit (10% of assessed value)	$ 54,449
Debt applicable to limit:	
General Obligation Bonds	26,037
Less: amount set aside for repayment of general obligation debt	-
Total net applicable to limit	26,037
Legal debt margin	$ 28,412

Table 17

City of Lexington, Virginia
Pledged-Revenue Coverage
Last Ten Fiscal Years

	Water/Sewer Revenue Bonds						Special Assessment Bonds			
		Less:	Net	Debt Service (1)			Special			
Fiscal Year	Water/ Sewer Charges	Operating Expenses	Available Revenue	Principal	Interest	Coverage	Assessment Collections	Principal	Interest	Coverage
2018	4,612,758	3,374,530	1,238,228	769,330	100,434	1.42	n/a	n/a	n/a	n/a

Note: The City has had no special assessment bonds activity during this period.

(1) Includes amounts paid to Maury Service Authority for a portion of debt service during the year.

Schedule is intended to show ten years of information. Debt was issued during fiscal year 2017 and no payments were made until fiscal year 2018. Additional years will be shown as the information becomes available.

Source: City financial reports

Table 18

City of Lexington, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands)(2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2017-18	(5)	(5)	(5)	667	5.4%
2016-17	7,284	(5)	(5)	678	7.1%
2015-16	7,301	1,363,393	37,989	659	8.2%
2014-15	7,410	1,348,251	37,210	651	8.5%
2013-14	7,329	1,262,492	34,836	650	11.3%
2012-13	7,332	1,259,937	34,846	674	12.8%
2011-12	7,356	1,236,939	36,099	667	13.2%
2010-11	7,197	1,153,183	32,028	621	11.8%
2009-10	7,042	1,110,646	30,854	619	14.5%
2008-09	7,282	1,122,581	32,617	613	12.2%

(1)Weldon Cooper Center for Public Service Demographics & Workforce Group, www.coopercenter.org
(2) Bureau of Economic Analysis, United States Department of Commerce, City of Lexington, City of Buena Vista and Rockbridge County combined, www.bea.gov/regional/bearfacts/action.cfm
(3) Lexington City Schools.
(4) Virginia Employment Commission.
(5) Information unavailable.

Table 19

City of Lexington, Virginia
Principal Employers
Current Year and Ten Years Ago

	Fiscal year ended June 30, 2018		Fiscal year ended June 30, 2009		
Employer	Employment Range (A)	Rank	Employment Range	Rank	% of Total City Employees
Washington & Lee University	over 1000	1	over 1000	1	22.9%
Virginia Military Institute	500-999	2	500-999	2	12.8%
Carilion - Stonewall Jackson Hospital	100-249	3	250-499	3	5.3%
City of Lexington	100-249	4	100-249	5	2.8%
Aramark Campus LLC	50-99	5			
Kroger Company	50-99	6	50-99	7	1.6%
Lexington City School Board	50-99	7	50-99	6	1.9%
Heritage Hall Health Care (HCMF)	50-99	8	50-99	8	1.3%
Rockbridge Farmer's Cooperative	50-99	9	50-99	10	1.1%
Rockbridge Regional Library	20-49	10			
Rockbridge County			100-249	4	3.6%
The VMI Foundation			50-99	9	1.2%

(A) Note that the Virginia Employment Commission currently only permits the publishing of ranges for employee numbers; therefore, the percentages of total City employees are no longer presented.

Source: Virginia Employment Commission, Labor Marker & Demographic Analysis.

Table 20

City of Lexington, Virginia
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

	Full-time Equivalent Employees as of June 30, 2017									
Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government administration	14	14	14	14	14	14	14	14	14	14
Judicial administration	-	-	1	1	1	1	1	1	1	1
Public safety										
Police										
Officers	16	16	16	16	16	16	16	17	16	16
Civilians	2	3	3	3	3	3	3	3	3	4
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Fire	-	1	1	9	9	10	11	11	16	17
Public works										
Administration & maintenance	36	35	35	34	38	39	41	40	40	35
Solid waste management	11	12	10	10	10	10	8	8	8	8
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	5	5	5	5	5	4	4	2	2	2
Leisure Services	-	-	-	-	-	1	1	1	1	1
Utilities processing										
Water treatment	7	7	7	7	7	5	5	5	0	0
Wastewater treatment	10	10	11	11	12	11	11	10	0	0
Total	104	106	106	113	118	117	118	115	104	101

Source: Government finance department

Table 21

City of Lexington, Virginia
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Function										
General administration										
Business licenses issued	617	616	640	648	698	677	662	678	668	678
Public safety										
Police										
Number of calls answered	5,446	3,815	3,899	3,447	4,780	4,475	6,094	5,639	5,422	5,278
Physical arrests	350	334	447	304	388	151	115	186	180	153
Parking violations	1,502	1,908	680	922	1,548	1,675	1,801	1,801	1,158	725
Traffic violations	1,145	800	862	542	718		137	529	577	270
Miles Patrolled	112,217	115,676	151,441	98,021	151,254	160,996	161,825	142,480	132,847	162,158
Fire										
Number of line calls answered	704	649	686	716	707	741	721	681	673	809
Number of reserve calls answered (1)	-	-	2,168	2,220	2,191	2,099	2,094	1,704	1,817	1,820
Inspections	146	136	129	84	87	184	166	294	353	286
Public works										
Highways and streets										
Street resurfacing (miles)	2.00	1.00	1.00	-	-	-	-	-	21.64	6.50
Sanitation and waste removal										
Refuse collected (tons/day)	12	10	9	10	10	10	9	8	9	8
Recyclables collected (tons/day)	6	7	8	6	12	10	7	6	7	6
Leisure services										
Culture and recreation										
Athletic program Participants	1,498	1,499	1,453	1,557	1,373	1,250	1,124	1,495	1,628	1,481
Utilities processing										
Water										
New connections	9	4	7	13	6	6	18	24	8	18
Water main breaks	30	19	23	29	32	30	40	29	30	50
Average daily consumption (thousands of gallons)	903	875	788	850	876	884	807	804	732	698
Number of customers	2,743	2,762	2,765	2,605	2,847	2,851	2,860	2,864	2,811	2,751
Wastewater										
Average daily sewage treatment (thousands of gallons)	608	732	631	667	645	735	583	603	(3)	(3)
Community development										
Number of building permits	83	55	57	100	61	87	87	74	62	124
Building construction value (thousands)	12,858	14,703	7,263	30,648	20,086	28,487	23,826	7,353	16,481	22,408
Component unit - school board										
Education										
Students - elementary	308	318	318	337	341	332	305	306	315	317
Students - middle school	176	178	170	186	189	174	187	187	204	200
City students - joint high school	129	123	133	144	144	144	159	166	159	150
Teachers elementary & middle school	50	50	50	50	50	50	50	50	49	50
Expenditures per pupil (2)	4,480	4,783	3,814	3,567	3,925	4,442	4,626	4,637	4,553	4,590

Source: Various city departments
(1) The City began compiling the number of reserve calls answered in 2011.
(2) The City began paying for school debt service costs in General Fund in 2011.
(3) The City transferred the operation of the wastewater treatment plant to the Maury Service Authority in FY 2017.
Note: Indicators are not available for the judicial administration function.

Table 22

City of Lexington, Virginia
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Function										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	13	13	13	13	13	13	13	13	13
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Highways and streets										
Streets (miles)	60	60	60	60	60	60	60	60	60	60
Streetlights	529	530	530	530	530	530	531	531	531	531
Traffic signal intersections	12	12	12	13	13	13	13	13	13	13
Parking garage	1	1	1	1	1	1	1	1	1	1
Cemeteries Maintenance										
Cemeteries	2	2	2	2	2	2	2	2	2	2
Health, education and welfare										
Hospitals	1	1	1	1	1	1	1	1	1	1
Number of hospital beds	25	25	25	25	25	25	25	25	25	25
Leisure services										
Parks acreage	37	40	40	40	43	43	43	43	43	43
Parks	8	8	8	8	8	8	8	8	8	8
Swimming Pools	2	2	2	2	2	2	2	2	2	2
Community centers	1	-	-	-	-	-	-	-	-	-
Utilities processing										
Water										
Water mains (miles)	30	30	30	30	58	58	58	58	58	58
Fire hydrants	268	268	268	268	270	270	270	270	270	270
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer										
Sanitary sewers (miles)	40	40	40	40	68	68	68	68	68	68
Storm sewers (miles)	5	5	5	5	7	7	7	7	7	7
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Component unit - school board										
Education										
Elementary schools	1	1	1	1	1	1	1	1	1	1
Middle schools	1	1	1	1	1	1	1	1	1	1
Jointly operated high school	1	1	1	1	1	1	1	1	1	1

Source: Various city departments
Note: Indicators are not available for the general government, judicial administration and community development functions.

Table 23

City of Lexington, Virginia
Schedule of Joint Services Contract Billing
For the Year Ended June 30, 2018

	Parking Garage	Fire	Recreation: RARO Administration	Recreation: Youth Basketball	Recreation: Little League Football	Recreation: Baseball and Softball	Recreation: Youth Soccer	Recreation: Other	Recreation: RARO Total	Totals
Salaries and fringe benefits	$ 2,176	$ 989,397	$ 308,764	$ 11,023	$ 9,396	$ 9,927	$ 1,718	$ 1,102	$ 341,930	$ 1,333,503
Contractual services	-	110,297	11,432	-	-	1,930	-	-	13,362	123,659
Other expenses	17,809	209,508	26,770	1,643	3,635	3,866	2,888	3,452	42,254	269,571
Totals	$ 19,985	$ 1,309,202	$ 346,966	$ 12,666	$ 13,031	$ 15,723	$ 4,606	$ 4,554	$ 397,546	$ 1,726,733
Less: Revenue for Operations	$ -	$ (557,583)	$ (5,730)	$ (6,101)	$ (4,095)	$ (6,858)	$ (3,489)	$ (3,804)	$ (30,077)	$ (587,660)
Net Expenses	$ 19,985	$ 751,619	$ 341,236	$ 6,565	$ 8,936	$ 8,865	$ 1,117	$ 750	$ 367,469	$ 1,139,073
Rockbridge County participation	9.90%	56.01%	59.69%	58.39%	60.40%	58.84%	58.92%	62.37%	59.67%	56.38%
Rockbridge County share	$ 1,979	$ 421,013	$ 203,684	$ 3,833	$ 5,397	$ 5,216	$ 658	$ 468	$ 219,256	$ 642,248

COMPLIANCE SECTION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of
the City Council
City of Lexington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lexington, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Lexington, Virginia's basic financial statements, and have issued our report thereon dated October 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Lexington, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lexington, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lexington, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lexington, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
October 17, 2018